# Moving From Good to Great

## Enhancing Alberta's Fiscal Framework

Alberta Financial Management Commission

July 2002

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102-07182/



July 8, 2002

Honourable Patricia Nelson
Minister of Finance
Government of Alberta
Room 224 Legislature Building
10800 - 97 Avenue
Edmonton, Alberta
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**Dear Minister Nelson:**

As members of the Financial Management Commission, we are pleased to provide our report and recommendations for a new fiscal framework for the province.

The Alberta government has done an outstanding job of managing the province's finances since the mid 1990s. The province is in an enviable position today. But as we learned through our review, Alberta's economy is changing, expectations have grown, and there are new challenges to address. Our objective has been to retain the strong elements of the fiscal framework that have served Alberta well, and also to look to the future and to enhance the framework so it meets today's priorities and helps prepare for the future.

We have titled our report, "Moving from Good to Great." We believe the province has an opportunity to build on its strengths and, once again, lead the rest of the country in thoughtful and sound financial management. More important, we believe that with vision, with a clear strategy, and a new fiscal framework, the province can move from good to great.

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We appreciated very much the opportunity to review the province's financial situation and provide our advice. While our recommendations will undoubtedly be the subject of much discussion and debate, we urge you and your colleagues to consider our recommendations carefully and move forward on a timely basis to implement a new fiscal framework for the province.

David Tuer, Chair

Douglas O. Goss, Q.C.

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# Executive Summary

The success of the Alberta government in eliminating the deficit, setting a determined fiscal course, and paying down the province's debt represents a major achievement by any national or international standard. Through clear policies and a legislated fiscal framework, the province has led the way for the rest of Canada and has established a solid reputation for fiscal management.

Today's fiscal framework has certainly put the province in an enviable position.

At the same time, much has changed since the mid 1990s. Many elements of what people have called the "Klein revolution" continue to be effective in maintaining a strong and sustainable fiscal position for the province. But some elements are proving to be less effective in a new environment in which there is greater fiscal flexibility and, as a result, greater difficulty in assessing priorities and in limiting the demands for increased government spending.

The current framework has created some fiscal challenges - challenges that were well illustrated in the past year when the province was forced to respond quickly to a slumping world economy, weaker equity markets, a downturn in the price of oil and gas, and uncertainties in world markets in the aftermath of September 11. On the one hand, the strength of the current fiscal framework is that it forced the government to take actions to prevent a deficit. On the other hand, the impact of those decisions was felt across the public sector where government was forced to change funding commitments, delay or defer projects, and withdraw plans mid-year.

The Commission also recognizes the increasingly important need to reduce the province's reliance on non-renewable resource revenues. Alberta is blessed to have an abundance of natural resources. Those resources underpin the Alberta Advantage and have provided the economic strength that allows the province to have balanced budgets, low taxes, and above average government services. They also allow us to make significant financial contributions to the rest of Canada. However, those resources are finite and diminishing. A new fiscal framework should provide for a gradual but sustained reduction in our reliance on natural resource revenues and a focused attempt to build financial and other strategic assets to maintain and improve the Alberta Advantage.

The Commission's challenge is to assess the strengths and weaknesses of the current framework, to maintain those elements of Alberta's strong fiscal framework that continue to work well and, at the same time, to introduce new fiscal features that will contribute to long term growth in Alberta's economy and sustain essential programs and services over the longer term. In the Minister of Finance's words, the province has an opportunity once again to, "...push the boundaries of excellence in the areas of fiscal planning for the benefit of future generations."

In short, the challenge is to move from "good to great."[1]

[1] The phrase "good to great" is taken from the title of the book *Good to Great* by Jim Collins, Harper Business, 2001

## Addressing issues

Through its work, the Commission identified a number of key issues.

### Increasing expectations

Significant surpluses in recent years, combined with pent up and, to some degree, unconstrained demand for government-provided services, substantial wage increases and tax reductions have tested the government's ability to maintain a sustainable fiscal path. In many respects, too many people have come to think Alberta is wealthy enough to "do it all" - spend increasing amounts of money on important public services, rapidly eliminate debt, fund new and expensive projects, provide generous wage settlements, have the best possible services, and reduce taxes even further. The long term impact of these initiatives and mounting expectations needs to be carefully managed through a fiscal framework that enables government to set the right priorities and puts the province on a sustainable course for the future.

### Continued dependence on resource revenues

The province's economy is significantly more diversified than a decade ago, but the reality is that energy still directly and indirectly accounts for as much as a half or more of Alberta's Gross Domestic Product (GDP).

That means Alberta's economy and the province's revenues are inextricably linked to the ups and downs of the non-renewable resource sector. Higher than anticipated prices for oil and especially natural gas have resulted in large windfalls for the province and have enabled the province to pay down its debt well in advance of legislated timelines. However, the windfalls have also contributed to uncertainty around the province's budgeting process. Higher than expected commodity prices and record high levels of non-renewable resource revenues have contributed to mounting expectations around what the province is able to deliver.

Taking a longer term view, the tremendous growth in conventional natural gas production has probably peaked and the province would do well just to maintain it at recent levels. Combined with that, conventional oil production will continue to decline and, while the production of heavier oils and bitumen is growing, it does not offer the province the same level of "economic rent" in the form of royalties.

These realities suggest Alberta should be taking a longer term perspective - making fiscal decisions that support a sustainable economic vision for the province, separating spending decisions from the highs and lows of resource prices, and planning for the day when traditional revenues from oil and gas will decline.

## The need for stability

Because the province's revenues are so dependent on oil and gas and because there are no mechanisms in place for stabilizing revenues from one year to the next, all aspects of the public sector have experienced "stop and go funding"- going full steam when prices are high, and drawing back as soon as they drop. While most government-funded organizations and agencies are happy to see the windfalls in good times, they are not well prepared to deal with short term downside shocks in revenues or with downturns such as experienced by the province in the past year. This "stop and go" or "approve and delay" process has also had the unintended effect of increasing the costs of capital projects.

If there is one message the Commission consistently heard it was the need for more stable, predictable funding tied to better long term planning.

## Finding a better way of addressing capital needs

Stable funding for infrastructure including roads and highways, schools, hospitals, water treatment facilities, bridges, post-secondary institutions and other publicly funded buildings is a major concern. The Commission heard about considerable backlogs in maintenance and uncertainty around year to year funding. Because the province funds its capital on a pay as you go basis, the full amount of capital expenditures must be accounted for in a given year rather than spread out over several years. This is the household equivalent of paying for your house up front as opposed to using a mortgage to pay for it over time. There also are concerns that, in the current fiscal framework, capital funding cannot be carried over from one year to the next if projects are unable to proceed as planned. It's time to reconsider how the province funds and accounts for capital so that needs can be met and more long term planning and budgeting can be done.

## Clarifying responsibilities and improving efficiencies

Government needs to improve its strategic capabilities as a necessary first step to move the focus of current business plans from processes to outcomes. Without a firm strategy, government planning will be driven by short term and often conflicting priorities. The government must also continue to strive for efficiency in the way services are organized and delivered. In this context, consideration should be given to reducing the number of government departments and consolidating the number of health regions.

The Commission also heard that Alberta's municipalities, particularly the two major cities, are facing increasing pressures in responding to infrastructure demands and growing populations. The Commission heard repeatedly about the need to sort out roles and responsibilities between the province and municipalities and to use that as the basis for "a new deal" for funding.

## Setting objectives

Consistent with those key challenges, the Commission set the following objectives for changes it recommends to Alberta's fiscal framework:

- ***Alberta's fiscal framework should be tied to a longer term sustainable economic vision for the province.***
- ***The framework should enable long term planning.***
- ***The fiscal framework should provide stable, long term and predictable funding.***
- ***A better way of managing and funding capital should be implemented.***
- ***Alberta's debt should be paid down.***
- ***The fiscal framework should promote ongoing efficiencies in government and government funded programs and services.***
- ***The planning and budgeting process should be more open.***

## Introducing a new fiscal framework

Taken together, the Commission's recommendations represent a new fiscal framework for the province. While we understand that more work is required to test many of the assumptions underlying the fiscal framework we are proposing, we believe it provides a sound new direction for the province. Most important, we think it provides the government with the tools to move our province from good to great.

The key directions of the proposed framework are as follows:

- **We can't count on resource revenues forever.**

  Alberta is fortunate to have natural resources that generate significant revenues for the province. It is the basis for the "Alberta Advantage." Resource revenues have helped fund essential programs and services, keep taxes low, reduce debt, build quality schools, colleges and universities, roads and highways, and maintain our health system. At the same time, we can't count on those revenues being there forever. We need to use today's resource revenues wisely to support a sustainable economic vision for the province and prepare for the future inevitable decline in resource revenues.

- **Government must clearly articulate a strategic plan for achieving a sustainable economic vision for the future.**

  Alberta needs an economic vision and a strategic plan that prepares the province for the time when resource revenues will decline. The strategic plan should guide the fiscal framework and budget decisions. That may mean putting a higher priority on education to ensure a highly skilled and talented workforce. It may mean lower taxes. It may mean that infrastructure to support a growing and changing economy becomes a higher priority. The fundamental need is for

government to have a strategic plan for achieving its vision and to make financial decisions consistent with that strategic plan. Government also should take steps to increase its capacity in strategic planning and project management. This strategic approach would address the message we consistently heard for government to take a longer term view to planning and budgeting and it would position the province for a strong and prosperous future.

- **It's time to set a bold new purpose for the Alberta Heritage Savings Trust Fund.**

Alberta's Heritage Savings Trust Fund has served the province well and created a lasting legacy. Instead of using the Fund only as a passive and static "savings account," it should be retained, strengthened, and allowed to grow. The Fund should be used to address pressing problems today but, perhaps more important, it should be part of government's strategy to design and implement a transition to the time when resource revenues diminish. Consistent with this new direction, the Fund should be renamed the Alberta Heritage Fund.

- **In a resource-based economy, revenue volatility is a given, but government should move to more stable and predictable spending.**

Instead of tying spending decisions to the ups and downs of resource revenues, a new fiscal framework should assess and set an appropriate and sustainable level of resource revenues to be spent on an annual basis. All resource revenue should go into the Alberta Heritage Fund and a fixed amount should be allocated to the general revenues of the province on an annual basis. All year end surpluses should also go into the Heritage Fund. By taking a conservative approach to how much resource revenue is taken out of the Fund each year, the Heritage Fund should grow at a reasonable rate and generate additional revenues to meet important priorities in the longer term. The current requirement that budgets must be balanced every year should be retained.

- **The province should proceed with an orderly plan to pay down existing debt as it comes due.**

A debt-free Alberta is an important legacy for future generations of Albertans. At the same time, that objective has to be balanced with other priorities. The province should proceed with an orderly plan to pay down existing debt as it comes due and set aside funds in a renewed Alberta Heritage Fund for this purpose. The Commission expects the Heritage Fund to grow. There will be certain years when the amount of resource revenues collected in the year and deposited in the Heritage Fund will be greater than the fixed amount of resource revenues withdrawn from the Fund. Year end surpluses will also be added to the Fund. With this approach, all but about $2.2 billion of the province's accumulated debt will be repaid by 2005/06 and by 2013, it will virtually all be repaid.

- **A new approach to capital planning and funding is required.**

Government should introduce a new approach that addresses the backlog of deferred capital projects, allocates a set amount to capital each year, encourages more long term planning and funding, addresses the problems surrounding deferred maintenance, and provides more flexibility in allowing new approaches to funding capital projects.

- **Government should continue to strive for efficiencies in how services are organized and delivered.**

The rigor of the business planning process should be reinforced and the focus of business plans should shift to strategic considerations rather than operations and activities.

- **Government should be a national leader in public sector accounting and financial reporting and maintain its commitment to providing full, accurate and informative reports on its performance to Albertans.**

## Recommending change

The Commission's key recommendations are as follows.

1 The Alberta Heritage Savings Trust Fund should be retained, strengthened, allowed to grow, and renamed the "Alberta Heritage Fund" with four new purposes:

- To stabilize the impact of volatile resource revenues on the province's budget
- To manage the orderly pay down of existing debt as it comes due
- To address the backlog of deferred capital projects in the short term
- To serve as a transition to the time when resource revenues decline and as an integral part of the province's strategy for achieving a sustainable economic vision for the future.

2 To provide stable and predictable funding, the Commission recommends that all non-renewable resource revenues should go into the renewed Alberta Heritage Fund on an annual basis. All year-end surpluses should also go into the Heritage Fund. A fixed and sustainable amount of resource revenues should be drawn out each year to support the government's budget. The fixed amount should be set at the lesser of $3.5 billion or the average of resource revenues for the previous three years.

3 The renewed Alberta Heritage Fund should provide the vehicle for managing the orderly pay down of existing debt as it comes due. That means the bulk of Alberta's accumulated debt will be repaid by 2005-06.

4 A portion of the province's annual budget should be allocated for capital spending. The amount should not be less than 0.9% of the average of the provincial GDP for the previous two years.

5 Government should prepare a three to five year plan for capital and infrastructure projects and include that plan as part of its annual budget. Changes should be made to existing legislation to allow funding for specific approved capital projects to be carried over from one year to the next.

**6** In the same way that debt must be repaid, so must government commitments to spending be honoured. Funds in the renewed Alberta Heritage Fund should be allocated to address the current backlog of previously committed capital projects in a planned and orderly way. A list of those projects is included in Appendix 3.

**7** Government should produce and publish the list of committed but deferred capital projects along with its annual budget and report each year on the status of those projects.

**8** Government and government-funded entities should be allowed to enter into alternative funding arrangements for capital projects under specific conditions and with appropriate guidelines in place.

**9** All capital project proposals should include a business plan that clearly outlines the funding model and cost implications including operating costs, amortization, and debt repayment if applicable. Government should have the option of funding approved projects over a longer term or paying the full cost of the project in a given fiscal year.

**10** Standardized methods for estimating and reporting on deferred maintenance and utilization, functional obsolescence, and efficiency of facilities should be established and communicated. Government and its funded agencies should use these tools in their planning and reporting.

**11** The province should develop a plan for addressing deferred maintenance over the next five years. Funding for deferred maintenance should be identified as a component of the province's annual budget.

**12** Government should clearly articulate a strategic plan for achieving a sustainable economic vision for the province. The government's business plan should be refocused as a strategic plan to achieve the vision and to provide criteria for setting priorities and making budget decisions.

**13** The current business planning process should be strengthened by requiring all government ministries, organizations and agencies to focus on measuring their decisions against strategic goals linked to the government's strategic plan. Activities and operational matters should be left for internal operational plans.

**14** Standing Policy Committees should be given increased responsibility for gathering information from various stakeholder organizations and providing this input to the budgeting process.

**15** There should be regular reviews, including benefit-cost assessments, of all major government programs, policies and delivery mechanisms. The number of government departments and agencies should be reviewed.

**16** The government should explore various incentives to encourage ministries and government-funded agencies to manage their budgets and assets more efficiently.

**17** The government should undertake a review and risk analysis of all the major components of its expenses and revenues, including its dependent boards and agencies, with a view to developing a comprehensive, cost effective risk mitigation strategy.

**18** The government should not be involved in public sector salary negotiations where it is not a signatory to the collective agreement.

**19** Government should play a more direct role in establishing a framework for public sector salary negotiations through a mechanism for sharing information with various employer groups including health authorities and school boards. This would include providing guidance on the province's ability to meet new fixed costs on a sustainable basis and on competitive salaries and benefit levels in other provinces and jurisdictions.

**20** To supplement the government's reporting regime, the government should consider adding the publication of a quarterly and an annual financial summary of the highlights limited to a few pages of material and presented in a simplified, easily readable, plain language format.

**21** The Government should continue to work with the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants in the development of the government entity reporting proposal. Government-funded entities should be consolidated into the government's accounts and financial statements unless there is a compelling case why a specific entity should be excluded.

**22** The government should continue working with PSAB in the development of the standard regarding the capitalization and amortization of assets and it should adopt the standard when it is developed.

**23** The government should work closely with the Office of the Auditor General with the objective of having an audit opinion without reservations based on generally accepted accounting principles (GAAP) and not on a "disclosed basis" of accounting.

**24** The government should signal its intent to move forward with a new fiscal framework and use the balance of the current fiscal year to prepare for the transition.

**25** In five years or less, the government should establish a new Commission to provide an external review of government's fiscal situation and its fiscal framework.

## Moving from good to great

The Alberta government is to be commended for the strong leadership it has shown in managing the province's finances. As noted by the Minister of Finance, Alberta is prepared to "... push the boundaries of excellence in the areas of fiscal planning for the benefit of future generations."

We hope we have done just that ... pushed the boundaries of excellence. We believe the new fiscal framework we propose will achieve the following objectives:

- It will remove the impact of Alberta's volatile resource revenues and allow the province to provide stable, long term budgets and plans.
- It will ensure that debt is paid down and eliminated in an orderly way.
- It will revitalize the Alberta Heritage Fund and put it to work to help Albertans today and for generations to come.
- It will introduce a new and more stable way of paying for capital projects.
- And it will build a transition to the future when oil and gas revenues decline.

In short, we believe this new fiscal framework will move Alberta from good to great.

# Starting with the Mandate

The Financial Management Commission was established by Honourable Pat Nelson, Minister of Finance, in March 2002. In announcing the Commission, Mrs. Nelson said that, "Alberta is a proven leader in public sector reporting and sound fiscal planning." The fiscal measures put in place in the mid 1990s requiring balanced budgets, prudent revenue forecasts, three year business and fiscal plans, performance measures, and deliberate pay down of Alberta's accumulated debt have produced outstanding results.

At the same time, much has changed since the mid 1990s. It is timely to review the current fiscal measures, consider some of the unanticipated consequences those measures may have caused, and decide what adjustments and new directions may be needed. The goal is to build on the positive results achieved to date and, in the Minister's words, "... to push the boundaries of excellence in the areas of fiscal planning for the benefit of future generations."

The Commission was given a broad mandate to explore the province's finances and recommend possible improvements. Specifically, the Commission was asked to review:

- The progress the province has made on its financial status since 1993
- The financial position of the province at March 31, 2002 including forecasts of provincial revenues and expenditures
- Current accounting principles used to prepare the province's financial statements, quarterly updates and fiscal plans, and report on the transparency, timeliness and ease of use
- The government's fiscal planning policies and strategies including, but not limited to:
  - The Fiscal Responsibility Act and its objectives
  - Impacts of public sector salaries on provincial expenditures
  - Capital expenditure accounting and financing (including the use of "public private partnerships")
  - All government owned and controlled corporations, trusts and agencies including the overall fiscal planning and strategy of the Alberta Heritage Savings Trust Fund
  - Any other provincial revenue, expenditure, asset or liability that the Commission may deem relevant as a result of information brought to its attention.

The Commission could also review and provide advice on areas where the government may be able to improve its effectiveness and efficiencies in relation to the cost of providing services.

In fulfilling its mandate, the Commission:

- Invited submissions from interested Albertans and organizations

  Advertisements were placed in all major daily and weekly newspapers across the province and specific organizations were contacted directly and asked to provide submissions. A total of 89 submissions were received. (A list of submissions, except for several "anonymous" ones, is included in Appendix 1.)

- Held public hearings

  Full-day public hearings were held in Edmonton and Calgary. A planned session for Grande Prairie was cancelled due to a lack of presentations and a scheduled session in Lethbridge had to be cancelled because of one of Alberta's unpredictable spring snow storms. Alternative arrangements were made for the Commission to hear these presentations. A total of 34 individuals and organizations made verbal presentations at these hearings. (A list of presentations is included with the list of submissions in Appendix 1.)

- Sought the advice of experts

  Several leading economic and financial experts were asked to explore options and present their ideas to the Commission. (A list of technical advisors is included in Appendix 1.)

- Reviewed reports, articles and studies

  A list of many of the reports and articles reviewed by the Commission is included in Appendix 2.

- Considered fiscal frameworks in place around the world

  The Commission reviewed several fiscal frameworks in place in other countries with significant non-renewable resource revenues including Norway and Alaska.

The input, ideas and suggestions received enabled the Commission to identify key issues and explore a number of options for continuing to improve the province's fiscal framework.

# Setting the Context

It is important to begin with a clear picture of Alberta's fiscal framework and the results that have been achieved. There can be no doubt that the province has achieved a solid record of success as a result of sound fiscal measures put in place in the early 1990s. But it wasn't always the case.

## Starting with the Financial Review Commission

In early 1993, the province's fiscal situation was a serious concern. A string of deficit budgets from 1985/86 to 1993/94 led to mounting debts and eroding confidence in the province's ability to manage its fiscal resources. As a result, the Alberta Financial Review Commission was established in January 1993 to inquire and report on the appropriateness of the province's accounting principles and the financial position of the province.

The report of the Financial Review Commission began with a stark message: "The need for Albertans to support change is urgent." They concluded that:

- The annual deficit was serious and getting worse - In their words, "The province is spending more than it can afford, has done so every year for the last eight years, and the rate of overspending is increasing."
- Accounting and financial reporting must be improved - Information was not being provided on a clear and timely basis.
- Management control and accountability systems should be more effective - One of the Commission's most significant concerns was the apparent lack of an overall plan and the need for better accountability.
- The proliferation of agencies and funds can create confusion and reduce control - At the time, the Commission identified over 150 government-owned or controlled agencies, funds, boards and corporations, many of which did business with each other. The Commission also commented that the existence of the Heritage Savings Trust Fund created a false sense of security. At that time, the government's level of debt exceeded the assets in the Fund and so, in effect, there was no Heritage Fund.
- Loans, guarantees and investments create risk - Since 1985, the government had used loans, guarantees and investments as economic diversification instruments as well as to support core industries which experienced financial difficulties. By 1992, the amount of outstanding loans, guarantees and investments reflected in the province's financial statements had grown to over $12 billion.

Many of the fiscal measures in place today are the direct result of recommendations made by the Financial Review Commission, including balanced budget requirements, improved accounting and reporting of financial results, quarterly financial statements, and three year business and fiscal plans.

The Financial Review Commission also made a number of recommendations which were not specifically implemented by government but relate to problems that continue to this day. For example, the Commission urged government to recognize the existence of "lurking expenditures" and take them into account in preparing future budget plans. The Commission referred to the potential impact of an aging population, environmental issues, advances in health care technology, deferred maintenance and looming replacement of properties and infrastructure. Many of these "lurking expenditures" continue to this day and are placing increasing pressure on government budgets. The Commission also suggested further study of how the province accounts for capital expenditures and provides for amortization and depreciation.

## Putting a new fiscal framework in place

### The fiscal framework

To its credit, the government responded almost immediately to the key directions and recommendations of the Financial Review Commission.

Alberta's current fiscal framework is set out in several key pieces of legislation: the Financial Administration Act, Fiscal Responsibility Act, and Government Accountability Act. The key features of this legislated fiscal framework include the following:

- For the most part, the finances of most government-funded entities are included in the government's budget and financial statements.
- The budget must be balanced every year.
- An economic cushion equal to 3.5% of estimated revenue is set aside each year to protect against revenue volatility during the year and to account for income of several enterprises, agencies and funds which is retained by those entities.
- Only 25% of any increase in revenue above the budget estimate may be spent during the current year. At least 75% of the increased revenue must go to debt repayment or to increase the province's financial assets.
- Timely, quarterly reports are required.
- Government's year-end financial results must be released by the end of June, 90 days following the fiscal year end.
- Legislated, scheduled plans are in place for eliminating debt and unfunded pension obligations.
- Three year fiscal and business plans are required.
- Ministers are required to take ownership of their ministry business plans by signing an accountability statement.
- Reports tracking government's and ministries' performance on key measures are released each year.

## Forecasting revenues

The government's revenues come from a variety of sources including taxes, resource royalties and land sales, transfers from the federal government, liquor and gaming operations, premiums, fees, licenses, investment income, and other sources. Forecasts for the various revenue streams are prepared by the responsible ministries and forwarded to Alberta Finance. Alberta Finance prepares an overall forecast of revenues for budget purposes. These forecasts are based on historical information and an array of other factors including economic assumptions provided by Alberta Finance.

The requirement for balanced budgets has instilled a bias toward conservative forecasting. In the case of resource revenue forecasts, Alberta Energy prepares the forecasts based on a number of factors including private sector forecasts. The forecasts tend to be in the low range of private sector forecasts. These conservative forecasts also have an impact on other revenue forecasts, including corporate income tax.

## Accounting for revenues and spending

One of the government's goals is open and transparent accounting of all revenues and expenditures. Alberta generally complies with the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The province's consolidated financial statements are audited each year by the independent Office of the Auditor General. The Auditor General reports annually to the Legislative Assembly and provides his opinions and recommendations on the government's financial and performance reports.

As noted above, Alberta also has moved to consolidated budgeting. Various entities, funds and agencies are included in government's budgets and financial statements. Currently, school boards, health authorities, post-secondary education institutions, and pension plans are not included in the province's consolidated accounts, although funding provided to these entities is recognized in ministry financial statements.[2]

In terms of capital, the government funds and accounts for capital expenditures in two different ways:

- For "outside government" entities that receive funding from government for capital projects such as school boards, municipalities, health authorities and post-secondary institutions - Government provides grants to these entities to support approved projects such as new schools, roads or transportation links. These grants are recorded as an operating expenditure on the government's books for the year. In certain circumstances, the various entities that receive the grants are not required to spend them in the current year but can allocate the funds over an extended timeframe.

[2] A list of entities excluded from the government's consolidated accounts is provided on page 68.

- For direct government-owned infrastructure such as highways, bridges, buildings, and other infrastructure projects - The government's consolidated statements treat capital spending on a "pay as you go" basis. The expended funds are considered an expense in the fiscal year. Just like operating budgets, capital budgets cannot be carried forward to a future fiscal year if the full budget amount is not spent. A "pay as you go" approach differs from the private sector where capital spending is treated as the addition of an asset which is then expensed as depreciation over time.

## Budgeting and reporting results

The government's budgeting process generally begins in the fall of each year, well before the end of the current fiscal year. The process varies from year to year but typically includes the following components:

- Initial forecasts of revenue are requested and an overall fiscal plan is prepared, including specific spending targets for ministries.
- Ministry business plans are reviewed by the appropriate Standing Policy Committee. Ministry business plans typically identify the goals, strategies, performance measures, issues, and spending pressures government is likely to face over the three year term.
- Specific budget plans are reviewed by Treasury Board and decisions are made.
- A draft budget and three year business plans are prepared for each Ministry and government as a whole.
- The draft budget is reviewed and approved or adjusted by Treasury Board, Cabinet and Caucus.
- Government's annual budget and detailed estimates are presented to the Legislative Assembly in the spring of each year.
- The estimates are debated and approved by Members of the Legislative Assembly.

Until the budget is introduced in the Legislative Assembly, Government's current budget process does not provide opportunities for open public input and discussion. Municipalities, health authorities, school boards, and post-secondary institutions have opportunities to provide input through the Standing Policy Committee process and to various Ministries in the course of developing their own business plans.

In terms of reporting results, as noted previously, the government provides quarterly fiscal updates as well as a comprehensive year-end report that includes not only financial results for the year but also performance results on a series of key measures. This is followed up by annual reports from each of the ministries.

## Assessing the fiscal results

The provincial government has put a clear, legislated fiscal framework in place. But the key question is: "What results have been achieved?" In a word, the financial results since 1993 can be described as "outstanding."

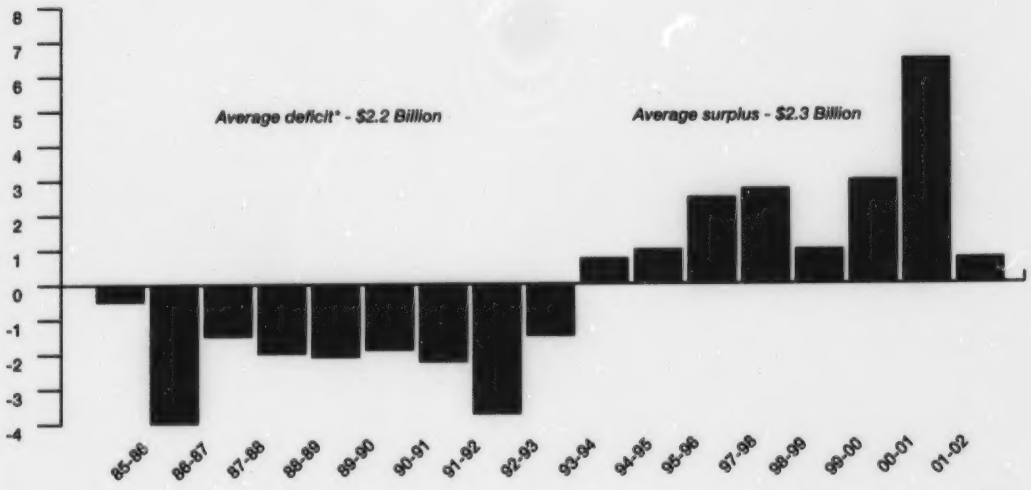
- The province took steps to quickly eliminate the deficit.
- We have had eight consecutive balanced budgets.
- Net debt was eliminated in 1999/00 and approximately $17.5 billion of accumulated debt has been repaid.
- Comprehensive, timely reporting of financial information means that Albertans are better informed about the province's financial situation.
- Alberta has the best credit rating in the country. The province has earned a "Triple A" credit rating by three major bond rating agencies.
- Taxes have remained low. In fact, Albertans pay less tax today in real terms than they did ten years ago.
- Alberta's economy has consistently been at or near the top in annual economic growth in the country.

*"While the Alberta economy has certainly become more diversified, provincial government revenues still remain extremely unpredictable and less diversified than the economy as a whole."*

*Mike Percy, Dean of the University of Alberta School of Business, Edmonton Journal, June 25, 2002*

## Historical Fiscal Summary

(in billions)




* Does not include $1.5 billion in school construction debt brought on to the balance sheet in 1992/93

These achievements are especially impressive in light of the fact that the province, like all other natural resource owners, has consistently had difficulty accurately forecasting resource revenues. Between 1993 and 2001, the government underestimated resource revenues by a total of close to $12 billion, or an average of almost $1.5 billion a year. Over half of the total "underestimation" occurred in 2000-01 when the province estimated resource revenues at about $4 billion and the actual amount at the end of the fiscal year was $10.6 billion. The positive side is that this approach enabled the province to pay down debt much more quickly than anticipated. On the negative side, consistently underestimating resource revenues leads to a perception that the government may be deliberately underestimating resource revenues in order to curb spending increases in other program areas.

The volatility of Alberta's revenue picture has led to other problems as well. Higher than expected resource revenues during the year puts increased pressure on government to respond to spending pressures. Because 25% of higher than budget revenue can be spent during the year, business plans and budget targets have been adjusted mid-year, usually to provide increased funding in priority areas. In the past year, faced with a significant downturn in resource revenues early in the fiscal year, government responded by reducing planned expenditures and cutting back on commitments, principally in infrastructure spending. While this flexibility allows government to respond to the ups and downs of revenues during the year and from one year to the next, it also results in what some have called "stop and go" funding and the lack of stable, long-term planning and budgeting. It also has eroded confidence in three year business plans.

Research suggests that Alberta's wealth of natural resources can be both a blessing and a curse. Mansell[3] suggests that wealth of natural resources does not guarantee a high and sustainable standard of living. In many cases, societies with an abundance of natural resources tend to spend more of the "economic rent" they get from natural resources as an easy way to sustain consumption. The need for good stewardship is not as strong when natural resource revenues are available. Resource booms also tend to create what economists call "Dutch Disease" where the escalation of labour and other costs serves to squeeze out other activities to diversify the economy. While Alberta has been able to avoid the worst elements of the "curse of natural resources," there is a tendency for government to spend heavily in periods when royalties and other energy-related revenues are high. There also are signs that the resource sector is viewed as a "cash cow" that doesn't require upkeep.

These issues are at the heart of the Commission's work and underline the need to re-examine the current fiscal framework to see where adjustments may be needed.

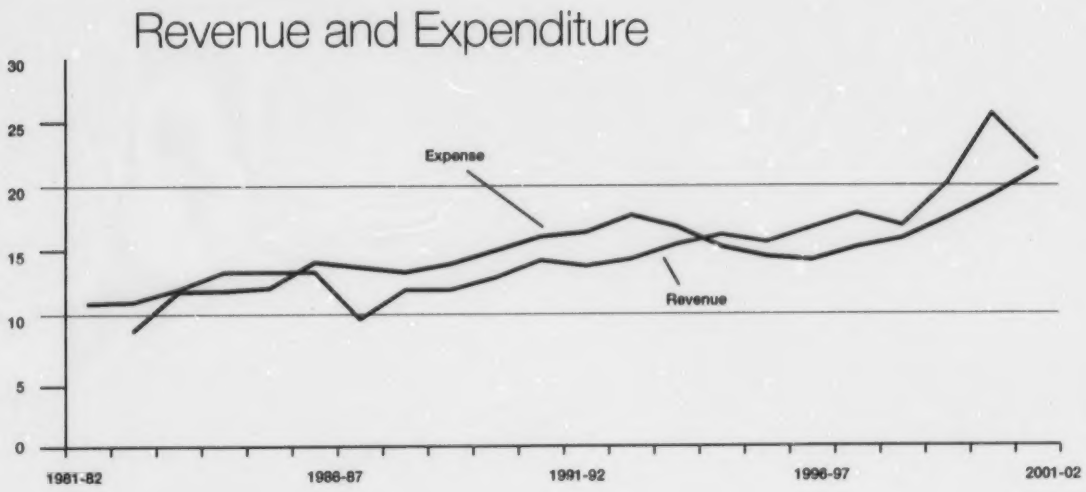
*"The Budgeting Plan undertaken by the provincial government has proven to be a function of casting proposed spending certainties against a field of revenue uncertainties."*

*Alberta Chambers of Commerce*

[3] "Alberta's Key Economic Challenges," Dr. Robert Mansell, University of Calgary, June 2002

## Tracking spending and revenue trends

The following chart compares trends in spending and revenues for the province going back to 1981/82.




*"... when money is up for grabs, many hands are grabbing."*

*Dr. Melville McMillan, University of Alberta Department of Economics*

From 1992/93 to 1995/96, Alberta's program spending was reduced by 21%, an average of 7% per year. In the last half of the 1990s, that trend was reversed. Strong revenue growth allowed the government to increase spending by an average of 9.5% a year from 1995/96 to 2001/02. This represents a total increase in spending of 58% over a six year period. The bulk of the spending increases have been concentrated in health and learning. Spending on health increased by 81% from 1995/96 to 2001/02, an average of almost 14% a year. About a third of government's total program spending in 2001/02 will go to health and projections suggest that, if current trends continue, health spending could consume half of government's program spending by 2008. Spending on basic and post-secondary education has increased by an average of 11% a year since 1995/96.

This trend is a growing concern given the increasing dependence on non-sustainable resource revenues to fund core programs such as health and education.

In recent years, government has also spent an increasing amount of money on infrastructure including roads and highways, schools, post-secondary institutions and health facilities. In the past two years, government spent about $5 billion on capital compared to an average of over $1 billion a year in previous years. The proportion of total spending that Alberta allocates to capital is higher than other provinces. However, an aging infrastructure and increasing deferred maintenance combined with the impact of a growing population and economy are placing increasing pressures on government's budgets. This is a significant issue which will be addressed later in this report.

On the revenue side, the picture can be described in a single word: volatility.

Swings in energy prices have translated directly into ups and downs in the province's revenues. Since 1981/82, annual non-renewable resource revenues have ranged from a low of $1.9 billion to a high of $10.6 billion. The 2002/03 provincial budget forecasts $3.7 billion in resource revenues. As a share of the province's total annual revenues, over the last ten years, resource revenues have varied from a low of 14% of total revenues (in 1998/99) to a high of 41% of total revenues (in 2000/01).

The mix of non-renewable resource revenue sources is also changing. Revenue from conventional oil production is diminishing while natural gas revenue has become the main component of the province's resource revenues. Oil sands royalties continue to be variable as well, falling from over $700 million in 2000/01 to a forecast of $78 million in 2002/03.

Other aspects of Alberta's revenues tend to be less volatile than non-renewable resource revenues but they also are tied to the fortunes of Alberta's economy. Personal income tax revenues are the most stable component and have doubled during the 1990s, increasing by about 10% per year, as a reflection of both population growth and economic prosperity. Personal income tax revenue fell by $1.2 billion in 2000/01 with the implementation of provincial income tax reductions. With a strong economy, revenues from personal income taxes are expected to increase in the coming years.

Corporate income tax revenues are more volatile, particularly because a large portion of Alberta's economy is tied to the fortunes of the energy sector. Since 1993/94, corporate income tax revenue has grown by 161%, an average of 20% a year.

Another key factor affecting both the province's revenues and spending requirements is the erosion of the provincial economy resulting from federal fiscal, environmental, and resource policies. There continues to be considerable fiscal inequity in the federal-provincial system. For example, in 2000, total federal taxes paid by Albertans will amount to about $20 billion, but only $13 billion will be returned to Albertans by the federal government either directly or indirectly. This amounts to a net fiscal transfer of about $7 billion a year, far higher than any other "have" province on a per capita basis. To put this in perspective, the annual drag on the provincial economy by the federal government exceeds the annual cost of health care in the province. On top of that, the federal government's share of the cost of health care has declined dramatically in the last decade.

## Looking at the current financial situation

The province's financial results for the year ending March 31, 2002 show that:

- The province ended the year with a surplus of $772 million. That's $45 million less than the projected surplus when the budget for 2001/02 was originally announced in March of 2001 but considerably more than the projections announced at the end of the first, second and third quarters of the fiscal year.

- Provincial revenues were just over $22 billion, $646 million less than anticipated in the budget for 2001/02.

- Provincial expenditures were just under $21.3 billion, $601 million less than the budget estimates.

The Commission's first comment on these results is that government has met its financial commitments, balanced the budget in spite of a drop in revenues, and continued to pay down Alberta's debt, despite a year of almost unparalleled revenue volatility.

At the same time, the results raise a number of questions and concerns.

- The volatility of provincial revenues continues to make it difficult to predict revenues and to provide stable planning and budgeting.

  Projections throughout the year pointed to a serious downturn in revenues as a result of a weakening global economy, declining oil and gas prices, and the subsequent impact of September 11. The government responded by reducing spending plans mid-year and pulling back on a number of commitments. As it turned out, the fourth quarter of the year ended up being much better than expected. Oil and gas prices rebounded, and resource revenues and corporate income taxes were higher than forecast at the end of the third quarter. The result is mounting criticism of the government's ability to forecast revenues and skepticism about the budgeting process.

- Confusion over spending on transportation at the end of the fiscal year caused significant concerns about the lack of stable, predictable funding, especially for infrastructure.

  Higher than expected revenue for the fourth quarter of the year allowed the government to spend an additional $155 million on transportation before the end of March. This announcement was made shortly after the Budget for 2002/03 had clawed back some municipal transportation funding. This apparent contradiction made it appear that government had done an "about face" and contributed to growing concerns about "stop and go" funding for infrastructure.

The Commission believes that its recommendations will mitigate these concerns, protect against the ups and downs of resource revenues, and provide a more stable fiscal planning framework for the future.

## Key observations

- The province has achieved an outstanding record of fiscal success including eliminating the deficit, introducing three year business plans and budgets, tracking and reporting performance measures, and paying down the debt.
- Alberta's revenues are volatile and government needs to take that into account in preparing future fiscal plans. High revenues in one year do not guarantee continuing high revenues in subsequent years. Economic decisions made in these circumstances may not be sustainable over a longer period of time.
- Continuing volatility makes it difficult for the province to manage expectations and put stable, long term plans in place. It also serves to undermine the credibility of the government and its ability to accurately forecast and manage revenues.
- "Revenue causes spending." The trends show that when revenues are high, spending will go up not only in that year but also in the following years. This is because government is allowed to spend an additional 25% of revenues during the year which then gets added to the base of ongoing spending. High revenues also lead to higher expectations of the amount of funding government can afford to spend.
- Federal government "drag" on the Alberta economy is increasing on a per capita basis, and must be considered a serious risk in future economic decisions.

# Looking Ahead

It's important to set the context with a good understanding of past results. But it's also important to look ahead - to understand the various trends and factors the province will face in the coming years and to take that into account in developing a new fiscal framework for the province.

## Fiscal trends and drivers

Alberta's fiscal picture is volatile. Both revenues and spending have gone up and down, primarily in concert with the ups and downs of oil and gas prices.

Looking ahead, there are a number of trends that will put pressure on government's spending decisions. Examples of these pressures include:

- Increasing costs of health care - Countless studies and almost constant media reports point to mounting concerns about the future sustainability of health care costs. The recent report of the Premier's Advisory Council on Health concluded that, "... without fundamental changes in how we pay for health services, the current health system is not sustainable." Increasing costs are driven by a number of factors including new technology, new drugs and treatments, and an increasing and aging population.
- Increasing costs in education - Information suggests that costs in education will continue to increase. People, their skills and knowledge, are a primary asset for the province. All indications point to the growing importance of a highly skilled and well-educated workforce as a critical factor in the economic success of the province. The government can expect increasing pressure to build new schools; employ more teachers, professors and researchers and ensure they are paid a competitive salary; expand the capacity of post-secondary institutions; and provide students with the financial assistance they need.
- Addressing the backlog and increasing requirements for infrastructure - Alberta faces a backlog of maintenance and major projects waiting for funding to proceed. A growing population and expanding economy will also put additional pressures on Alberta's infrastructure. An efficient and well-developed infrastructure is essential to support future economic growth in the province.

## Economic outlook

Over the last ten years, Alberta has had the fastest growing economy in the country. In 2001, Alberta's economy grew by an estimated 4.5%. Forecasts included in the most recent provincial budget suggest that Alberta's economic growth may slow somewhat in 2002 to an estimated 2.5%, although this is still high in comparison with other Canadian jurisdictions. Looking ahead to the 2003 and the medium term, Alberta's economic growth is expected to average 3.6% a year.[4]

While Alberta's economy continues to be strong, there are a number of factors that need to be considered as we look ahead.

- Signs of labour shortages are emerging, particularly for highly skilled workers, the health sector, high tech, and entry level positions.

- Alberta's high tech and manufacturing sectors are growing but the energy industry is still key to the province's economy. Directly and indirectly, the energy sector likely accounts for at least a half of Alberta's GDP.

- Looking ahead, the tremendous growth in conventional natural gas production has probably peaked and the province would do well just to maintain it at recent levels. Conventional oil production will continue to decline. Major changes are required in the amount of up-grading of non-conventional oil that is needed in order to get a reasonable value for the expected large increases in non-conventional oil production.

- While the United States is by far the most important market for Alberta products and services, the province also must also be able to compete globally. It is not sufficient for Alberta simply to compete with other provinces. We must set our sights on global markets.

- Alberta's economic growth is localized in specific regions, and provincial and municipal governments are facing pressures, especially on infrastructure.

- Technology will continue to have an impact on all aspects of Alberta's economy. Alberta lags behind several other provinces in expenditure on research and technology. Commercialization of research results continues to be a problem.

- The nature of trade is changing as Alberta's exports become more diversified and new trade opportunities open up inter-provincially and internationally.

*"Put simply, it is not possible to have a strong Alberta economy without a strong energy sector and many of the most difficult challenges relate to continued long term strength of Alberta's energy sector."*

*Dr. Robert Mansell, Alberta's Key Economic Challenges, June 2002*

[4] Further information on Alberta's economic outlook is included in Government of Alberta, *Budget 2002: The Right Decisions [illegible]*

- A number of sectors in Alberta's economy are affected by trade policies in the United States, particularly forestry and agriculture.

- Increasing environmental concerns related to the impact of the Kyoto Accord, demands on Alberta's water supply, land use policies, and other related issues could have a direct impact on Alberta's economy, limiting growth in some areas and creating opportunities in others.

- Albertans benefit from having among the lowest personal income taxes and school property taxes in Canada, the lowest fuel taxes, and no retail sales tax. Alberta businesses benefit from having among the lowest corporate income tax rates, no capital tax, no general payroll tax, and no retail sales tax on business inputs. In 2001/02, the government announced plans to reduce corporate income taxes and proceeded with the first steps to reduce business taxes by $286 million. Further reductions were made in 2002/03; however, plans to move ahead with the complete package of business tax reductions were delayed in the 2002/03 budget. Business tax reductions are a recognition that Alberta must compete on a global stage. If we do not provide an attractive business climate, investment will flow elsewhere.

## Other factors affecting Alberta's future

Clearly, there are a number of factors in addition to fiscal and economic factors that will affect Alberta's future. While it is beyond the scope of the Commission to do a comprehensive environmental scan, it is important to recognize a number of key factors that will have an impact on government's ability to manage its resources.

- A growing and aging population - Over the past five years, Alberta has had the fastest growing population among the provinces. Projections suggest that Alberta's population could grow to close to 3.3 million by 2005, an increase of 154,000 people. In addition, Alberta's population is aging. A provincial report on the impact of an aging population estimates that, between 1999 and 2016, there could be a 60 - 70% increase in the number of seniors in the province, while the total population is expected to grow by only 30%.[5] Both a growing and an aging population will put increasing pressure on Alberta's public sector services and communities, particularly health care and infrastructure.

[5] Alberta For All Ages: Directions for the Future, Alberta Community Development, page 19

- Increasing numbers of people moving to the province - Alberta has the highest number of interprovincial migrants in Canada. From July 2000 to June 2001, a net of over 25,700 people came to Alberta from other provinces, almost 8,000 more than second place Ontario.[6] Not only is Alberta's population growing but it also is becoming more diverse as the province welcomes people from different provinces, countries, backgrounds and traditions. It is essential to plan for this growth and to ensure that Alberta attracts the people it needs to address current or anticipated gaps in the workforce.

- A growing recognition of the need to prevent problems before they happen, ranging from an increasing emphasis on encouraging people to stay healthy to ways of ensuring children get a healthy start in life - Recent reports for the provincial government including the report of the Premier's Advisory Council on Health and the report of the Task Force on Children at Risk point to the need to take a more proactive approach to staying healthy. These initiatives are essential; however, the benefits tend to be longer term while the costs of implementing new initiatives add to the pressures on provincial, health authority and education budgets in the short term.

## Key observations

- The prospects for continued growth in Alberta's economy continue to be positive, but that will place increasing pressure on infrastructure, programs and services.
- There will be continuing pressures for the Alberta government to spend more in priority areas, particularly health, education and infrastructure.
- While the province's economy is more diversified than it was a decade ago, the reality is that we are still very heavily dependent on the energy sector. That means the province's revenues will continue to be tied to the ups and downs of oil and gas marketplace.
- Potential declines in conventional natural gas and oil production mean the province should begin now to think ahead and plan for a time when these traditional sources of revenue will decline.
- The province's population is growing and aging. With those changes comes increasing pressures on public sector services, particularly in health care and infrastructure.
- Increasing costs in health care, education and infrastructure will continue to challenge the sustainability of the province's budget.

[6] Budget 2002: The Right Decisions for Challenging Times, Alberta Government, page 95

# Issues and Ideas

A key component of the Commission's work was to clearly identify the issues and concerns with the current fiscal framework, to listen to the ideas and advice of various individuals and organizations, and to consider possible options for addressing current issues.

## Considering submissions

The majority of submissions to the Commission related to two issues: finding a better way of funding capital and providing stable, predictable funding for municipalities, health authorities, school boards and post-secondary institutions. The most common theme overall was the need to provide more stable and predictable funding. There was a consistent call for some form of stabilization fund, better long term planning, and a more open budgeting process. Views were mixed on the Heritage Fund. Of those who commented, most said the Heritage Fund should be kept for the longer term, inflation proofed and allowed to grow while another, smaller fund should be set up as a stabilization fund to accommodate short term ups and downs in provincial revenues.

Only three submissions commented on public sector salaries and they were divided on if and how this issue should be addressed. On accounting issues, the most common view was the need to change the accounting treatment for capital expenditures so they can be amortized over a longer term cycle. There were a few submissions related to the way various funds and agencies are included in the province's overall consolidated accounts.

## Identifying the key issues

Based on all the input, advice and assessment done by the Commission, the following is a list of the key issues and the various options and ideas that were identified.

### Address the impact of volatile resource revenues

Many submissions addressed the problem of volatile resource revenues and the impact that has on providing sustainable, stable, long term funding commitments. This thread ran through many of the presentations from the construction industry and road builders to municipalities, health authorities, universities, and other organizations that depend on government funding.

In terms of options, the suggestions for stabilizing the impact of volatile resource revenues included the following:

- Establish a stabilization fund - Such a fund could be used to smooth the peaks and valleys of government revenues. Surplus revenues would go into the fund when there are peaks in resource revenues, and the fund could be used to top-up revenues when there are downturns in the price of oil and gas.

- Use the Heritage Fund - Some suggested that a portion of the Heritage Fund could be used as a "shock absorber" to cushion the province in times of declining resource revenues.

- Consider alternative ways of forecasting oil and gas revenues - Suggestions included using a five or ten-year average of annual oil and gas prices rather than annual forecasts.

- Use only a portion of resource revenues to fund annual budgets - Instead of trying to predict resource revenues and base a budget on unpredictable prices of oil and gas, the province could decide on a fixed amount or a fixed percentage of the total of oil and gas revenues that would be used to fund the budget. This would remove the volatility and allow more stable budgeting.

- Reduce government's reliance on volatile resource revenues - Some suggested that government could use more stable revenues (e.g. personal and corporate income taxes) to fund base programs and use more volatile resource revenues to fund capital projects.

- Put spending limits in place - Some suggested that since Alberta's revenues will always be volatile, the problem isn't with revenue, it's with spending. Government would not need to worry as much about the volatility of resource revenue if it set limits on annual spending increases and tied to those limits factors such as increasing population, economic growth, etc.

- Remove the requirement to balance the budget every year - Some suggested that, instead of having to balance the budget every year, government could be required to balance the budget over a three-year budget cycle. That would allow for government to run a deficit in one year if there was a shortfall of resource revenues, but it would have to make it up in the next two years either by increasing revenues or by reducing spending.

*"The current legislative and accounting framework basically constrains the government to ride the resource revenue roller coaster and gives it no tools to manage resource revenue volatility."*

*Mike Percy, Dean, University of Alberta School of Business, Edmonton Journal, June 25, 2002*

## Provide more stable, predictable planning and funding

Consistent with the concern about revenue volatility, the Commission consistently heard about the need for more stability and better long-term planning. We repeatedly heard concerns about the need to get back to rigorous three year business plans and budgets and to end "stop and go" funding.

*"The past two years have seen high oil and natural gas prices lead to excessive one-time spending policies that took effect at about the same time those natural resource prices began to fall. By the time policies were in place to cope with the lower prices, commodity prices were again on the rise. This is a game we cannot win."*

*Consulting Engineers of Alberta*

A number of concerns were raised about "one-time funding." In some cases, government has used one-time funding to support additional transportation or other capital projects or to provide additional funding for other priority areas. In transportation, this means municipalities are provided with lump sum payments at the end of the fiscal year, but in their view, this does not allow them to plan ahead for use of those funds. At the same time, government provided a lump sum amount to cover several years of transportation projects and this should have provided greater stability for municipalities in allocating that money over several years. In health, so-called "one-time" funds have been used to reduce waiting times or accommodate salary settlements, in spite of the fact that these are ongoing costs to health authorities and cannot be addressed on a one-time basis.

While government has used one-time money to address specific issues, there really is no such thing as "one-time" spending. It inevitably attracts additional operating expenditures and becomes "continued spending" rather than one-time.

The Commission has the impression that, although one-time funding is welcomed, organizations would prefer predictable, stable budgets. Some submissions also suggested that limits should be placed on the amount of one-time funding government is allowed to provide. Others suggested that one-time funding should be limited to targeted areas such as drought mitigation, disaster relief and emergencies.

## Find a better way of funding capital

One of the most consistent concerns the Commission heard was the need to find a better way of funding capital, including buildings, equipment, roads, highways, bridges, interchanges, and other infrastructure. The concerns were consistent from Ministers of Infrastructure and Transportation to municipalities, health authorities, school boards, road builders, planners and construction companies.

The Commission heard repeatedly about the need for longer-term, predictable and stable funding for capital. Currently, capital funding is used as a form of "cushion" in the government's budget. If there's a shortage of funds during the year or other priorities need to be addressed, it is easier to delay or defer capital projects than reduce operating funding for health, education or social services mid-year. On the other hand, it also is easier to provide significant amounts of "lump sum" funding for capital at the end of the fiscal year because it can be used to fund specific projects rather than immediately adding to ongoing operating costs.

The impact, however, is significant. The Commission heard from municipalities that it is very difficult to plan on a longer term basis. We heard from construction and road building companies who are forced to lay off staff and have idle equipment when anticipated funding is cut back. This caused a serious problem this year when construction companies were geared up for a much higher level of transportation funding for the year based on the government's announcement of work volumes, but the amount was reduced during the fiscal year and in government's recent budget. These decisions were made after the companies had already made significant commitments for expansion.

The Commission also heard that the lack of predictable funding makes it difficult to get the best price for the projects. Infrastructure costs increase because the province is not able to take advantage of more favourable prices during economic downturns and is then required to purchase goods and services during times when they are scarce and costs increase. In terms of transportation funding, the Commission heard that additional funding provided at the end of the fiscal year cannot be spent within a reasonable period of time on government transportation projects because of the time of year. This is one of the reasons why government allocated a lump sum amount to municipalities in 2000/01 for their use over several years.

The Commission heard serious concerns about the backlog of deferred maintenance for roads, highways, buildings, bridges, hospitals and other major infrastructure assets of the province. Currently, there is no consistent and reliable estimate of the actual costs of deferred maintenance. The backlog in ongoing maintenance for government facilities, schools, post-secondary institutions, health care facilities, and seniors' lodges is estimated at $2.8 billion and is expected to increase by $240 million a year. On the transportation side, Alberta Transportation spends about 1% of the asset value of the provincial highway network on maintenance compared to private sector standards of 1.5% to 2%.

Combined with this "infrastructure debt," the Commission heard there is a growing need to expand and update Alberta's infrastructure to keep pace with growth in the province. In ten years, traffic growth could increase by 40% and there already are significant pressures on road systems in places like Calgary and north of Edmonton. Alberta Transportation estimates that $2.5 billion in new highway corridor projects will be required to meet growth needs over the next 10 years.

*"The core principle we wish to underscore is 'longer term planning.' The Province needs to establish a framework to allow it ... to plan over longer timeframes than just the current fiscal year. The Province's challenge in doing so is not so much to manage revenues, but to manage and control spending."*

*Chartered Accountants of Alberta*

Post-secondary institutions, school boards and health authorities also identified problems with infrastructure and the need to plan for new capital to meet changing and growing needs. At universities, there are growing demands for facilities to accommodate the increasing emphasis on research. School boards have concerns not only about deferred maintenance but also about the backlog of deferred school construction projects. For health authorities, capital maintenance, the need for new facilities in some locations, and the urgent need to replace, upgrade and purchase new equipment are pressing concerns.

With little control over the timing of their capital funding, these organizations cannot make critical long term operating decisions such as staffing up for a new facility. As a result, they can lose out in the competition for the "best and brightest" staff.

**In terms of options, the following ideas were suggested:**

- Set a budget for capital and stick with it - Capital funding should not be used as a "cushion" in the provincial budget. Instead, a fixed budget should be set for a specific period of time, say three years. Such a scheme would allow a more flexible approach where more or less money could be spent in a given year but the total amount spent could not exceed the budget for the entire three years. Some suggested that there should be separate capital and operating budgets. Others suggested a five year rolling plan for capital where projects are planned for and proceed on a priority basis.
- Establish a separate capital fund or a stabilization fund for infrastructure - A separate capital reserve/stabilization fund could be set up to sustain essential capital spending and establish a stable base of funding for capital. This fund could be in addition to a stabilization fund for the operating side of government's annual budgets.
- Address problems of deferred maintenance - A separate maintenance fund could be established or the backlog of deferred maintenance projects could be addressed through the budget with a deliberate plan to increase funding for maintenance. A suggestion also was made that the province should account for maintenance as a liability in its financial statements. As maintenance spending occurs, the liability would be reduced.
- Consider "smart debt" for major infrastructure projects - Although the province has deliberately taken steps to eliminate debt, some suggested that it makes sense to borrow funds for major capital projects rather than pay for the entire project out of current budgets. Under this approach, government would borrow funds (possibly through the Heritage Fund or the Alberta Municipal Funding Corporation) to support capital projects then pay it back over an extended period of time. The Commission also heard a suggestion that health authorities and other government-funded entities should be allowed to borrow for capital projects.

*"The province has adopted a policy of spending windfall revenues on a one-time annual basis rather than seeking strategies that would see such revenues spent over a longer time period. This fiscal policy creates large swings in spending levels, which have a negative effect on the roadbuilding and heavy construction industry's ability to properly plan for the future of its businesses and their employees."*

*The Alberta Roadbuilders and Heavy Construction Association*

- Consider alternative forms of funding for capital - The province could consider alternative forms of financing such as public-private partnerships to build infrastructure. For transportation, suggestions were made that the current fuel tax arrangement with Edmonton and Calgary could be extended to other municipalities. Others said that all revenues from fuel taxes and vehicle registrations should be used for transportation funding.

- Pay and account for capital over the longer term - Instead of paying for capital on a "pay as you go" basis, the province could consider alternative ways of amortizing the cost of capital over a longer term. If this approach was taken, the province could then account for capital spending over a longer term, reflecting the fact that a significant number of capital projects benefit several generations of Albertans.

- Pursue increased federal funding for transportation and infrastructure - Some suggested that the federal government should increase its share of funding for major transportation projects.

## Establish a new relationship with municipalities

The Commission heard numerous submissions from municipalities and municipal organizations. The central theme was the need for a "new deal" between the province and municipalities. The submissions repeatedly called for the need to sort out the respective roles and responsibilities of municipalities and the provincial government and referred to the work currently underway through the Minister's Task Force on Roles, Responsibilities and Resources for the 21st Century. Clarification of roles and responsibilities and reduction of overlap and duplication would serve as the basis for determining new funding or taxation sharing arrangements.

In addition to a call for more stable and predictable funding, municipalities want access to new sources of revenue to support growing needs in their communities. They suggested giving municipalities access to new taxes, establishing new tax sharing arrangements, and having the province remove education property taxes in order to give municipalities more tax room. A suggestion also was made that new tax sharing arrangements should be established to support the development of public transportation.

*"Since significant capital expenditures for new assets benefit future citizens, current taxpayers should not necessarily bear the entire cost."*

*Chartered Accountants of Alberta*

*"The main concern of municipal governments is their capacity to finance, predictably and responsibly, along with the increasing functions and responsibilities they are given ... There is an imbalance of roles, responsibilities, and resources that needs to be addressed."*

*Alberta Urban Municipalities Association*

## Open up the budgeting process

As noted earlier, the province's budgeting process typically involves a series of reviews and decisions by Ministries, Standing Policy Committees, Treasury Board, Cabinet and Caucus. While government-funded organizations have opportunities to provide input and advice to various ministries as they are preparing business and budget plans, the province's budget process does not provide formal opportunities for input at open sessions by municipalities, health authorities, school boards, post-secondary institutions or the public. Other elected bodies such as municipalities, school boards, and health authorities typically provide open sessions where people can provide input, listen to the debate, and participate in the budget development process.

*"... our member municipalities told us that while they would still rank the province's financial performance and financial reporting mechanisms slightly above average, they believe the province's budgeting process has declined and fallen below an average or acceptable performance level in recent years."*

*Alberta Association of Municipal Districts and Counties*

Suggestions were made that the province should open up its budgeting process and allow more direct opportunities for municipalities, health authorities, and other organizations and individuals to provide information and input, identify issues, and participate in a longer term planning process. In this way, there would be fewer "surprises" on budget day and government-funded agencies and organizations would have a better understanding of the rationale behind various budget decisions.

## Pay down Alberta's remaining debt

Eliminating Alberta's debt continues to be a priority, but the key question is, "How soon?"

**Suggestions for addressing the remaining debt include the following:**

- Set aside part of the Heritage Fund - This approach would allow government to take $6 billion from the Heritage Fund (roughly the amount of the remaining debt) and use it to pay down Alberta's debt as it comes due.[7]

- Ease up on debt elimination plans - The province is nine years ahead of its legislated schedule for paying down the debt. Some suggested that the government should continue to make regular payments against the debt but there is no need to accelerate debt repayment, especially if it is done at the expense of other priorities. Consistent with that approach, there was a suggestion that government should ease up on the "75/25" rule where 75% of surplus revenues above the amount that was budgeted for must go to pay down debt at the end of the year.

[7] Because maturity dates of provincial accumulated debt vary into the future, the province's accumulated debt cannot be paid off immediately without incurring significant penalties. The situation is similar to a mortgage where people pay a penalty if they pay off their mortgage prior to the term it is due.

- Make annual, budgeted payments on the debt - Instead of budgeting for an economic cushion that allows government to make a debt payment at the end of the year, the province could budget for an annual, fixed payment on the debt similar to a mortgage payment.

## Consider the role of the Heritage Savings Trust Fund

Alberta's Heritage Savings Trust Fund was established in 1976 as a way of setting aside a portion of the province's oil and gas revenues to benefit future generations. Initially, the Heritage Fund had four objectives:

- To function as a savings account that would offset declining resource revenue in the future
- To provide additional leveraging opportunities for the government, reducing the province's future debt load
- To improve the quality of life for Albertans
- To facilitate stability in the economy by providing a fund that could help diversify the economic activity of the province.

Since its inception, the Heritage Fund has undergone a number of changes. Prior to 1987, resource revenues flowed into the Heritage Fund and it reached its peak value of $12.7 billion. With the collapse of world oil prices in 1986-87, government stopped flowing resource revenues into the Fund and all income generated by the Fund, including capital gains, has been transferred to the General Revenue Fund to help pay for government programs and services. As of March 31, 2002, the Fund's fair value is estimated at $12.4 billion.

Through a variety of investments, the Heritage Fund has had a major impact on the province. It has funded capital projects such as developing parks, enhancing libraries and maintaining forests. Other investments have been used to diversify the economy and meet the needs of Alberta's population including the establishment of the Alberta Heritage Foundation for Medical Research, Alberta Heritage Science and Engineering Research Endowment Fund, Alberta Heritage Scholarship Fund, Alberta Children's Provincial General Hospital (Calgary), Walter C. Mackenzie Health Services Centre (Edmonton), University of Alberta Clinical Research Building, Pine Ridge Reforestation Nursery Enhancement, Alberta Family Life and Substance Abuse Foundation, renewable energy research, and applied cancer research.

*"... the Alberta government has slayed the deficit and debt dragon. It is a mere mouse today."*

*Alberta Federation of Labour*

Within Canada, no other provinces have funds similar to the Heritage Fund. The most common comparisons are with the Alaska Permanent Fund and The Norwegian Government Petroleum Fund.

Similar to the Heritage Fund, the Alaska Permanent Fund was designed to create future income to replace oil and gas revenues as they decline. The Fund's investment income is used in two ways: first, a percentage is returned to the fund on a yearly basis to account for inflation, and second, the fund pays a yearly dividend to all permanent Alaska residents. The Norwegian Government Petroleum Fund serves two purposes. First, it acts as a buffer to smooth out short-term variances in oil revenues. And second, it is intended to compensate for the eventual decline in revenue from oil and gas. In addition, the Fund acts as a tool for coping with the financial challenges associated with an aging population such as pensions, nursing and health care services.

**The primary differences among the three funds are as follows:**

- The Alaska Permanent Fund pays an annual dividend to residents while the Heritage Fund and the "Norway Fund" do not.
- The Heritage Fund has been used to diversify the economy in forestry, petrochemicals, agribusiness, heavy oil upgrading, high technology and tourism while the Norway Fund has been used to deal with demographic changes affecting Norwegians.
- Both the Heritage Fund and the Alaska Permanent Fund were originally intended to aid in times of low oil and gas revenues but are no longer used for that purpose. The Norway Fund continues to be used for that purpose.
- The Norway Fund must invest 100% of its funds abroad so the Fund's investments do not distort Norway's relatively small economy. No such rules are in place for the Heritage Fund or the Alaska Permanent Fund.
- The assets of the Heritage Fund are not inflation protected whereas those in the Norway Fund and the Alaska Permanent Fund are.

These comparisons with other similar funds are important to see what lessons can be learned for Alberta. Over the years, there have been several reviews of the role that the Heritage Fund should play in Alberta's fiscal framework and economic strategy, and people have consistently said that the Heritage Fund should be retained. Beyond that, there are continuing questions about its value, its investment record, and the role it should play in Alberta's fiscal and economic framework.

Those questions were the focus of a discussion paper prepared by a cross-section of financial planning experts for Alberta's Future Summit (The Savings Question: A Discussion Paper). The paper addressed the key question: "Should the Government of Alberta save for the future?" While economists and financial analysts are divided on the benefits of government saving as a general principle, most agree that there are special circumstances where government saving is not only beneficial but necessary. That includes cases where the economy is driven by revenues from non-renewable resources. Alberta certainly fits into that category - about 15 - 25% of Alberta government revenues come from oil and gas.

**In terms of what the savings should be used for, the discussion paper suggests the following options:**

- To address near-term savings goals including paying down Alberta's debt or addressing the unfunded liability in pension plans
- To stabilize revenues and act as a "revenue stabilization fund" or a "permanent reserve" to reduce uncertainty and help government deal with the volatility of resource revenues
- To support a sustainable fiscal policy and create a longer term source of income when revenues from oil and gas decline
- To establish program-specific endowments as social and economic tools
- To provide reserves for extraordinary capital requirements and to fund critical, one-time capital initiatives not covered in the province's general mandate
- To enable further tax reductions
- To create an Alberta pension plan
- To invest in infrastructure, education and human capital.

**Similar to the options outlined in the discussion paper, the Commission heard several views on what should be done with the Heritage Fund.**

- Keep the Heritage Fund for the longer term when Alberta's oil and gas resources decline - Suggestions were made that the Heritage Fund should be retained for its original purpose - to benefit future generations at a time when oil and gas resources decline. Some suggested letting the Fund grow again, including inflation protection.

- Retain the Fund but use it for a different purpose - Some suggested that the Heritage Fund could be leveraged and used for other purposes.
  - As a stabilizing mechanism - A portion of the Fund could be used for a "shock absorber" to accommodate short-term decreases in oil and gas revenues.
  - To pay down debt - Some suggested that a portion of the Heritage Fund could be set aside to pay down debt as it comes due.
  - To diversify the economy - Some suggested the Fund should be used not just as a savings account but to diversify the economy in preparation for a time when oil and gas resources decline. This could include investing in new endowment funds (e.g. a "Future Fund" to support health, social programs, arts and post-secondary education, an "Education Innovation Trust Fund" similar to the Heritage Foundation for Medical Research, or an infrastructure fund to support a growing economy).

*"The Province of Alberta is extremely fortunate to be blessed with an abundance of natural resources. It is our obligation to future generations of Albertans to manage them in the most efficient and effective manner possible. To not do so would be grossly negligent."*

*Paul Fisher, Calgary*

## Review public sector salary settlements

Government and government-funded services are by their very nature "people services." They are delivered by a wide variety of people from public servants and professors to teachers, nurses, doctors, pharmacists, health providers, social workers and a host of other employees. In total, there are about 164,000 employees in the Alberta public sector.

Public sector salary settlements have a significant impact on the province's budget and fiscal plans. Over $10 billion of the $20 billion the province spends on programs goes to pay for salaries and benefits. Each 1% increase in salary and benefits costs the government about $100 million.

**A number of issues have been identified in relation to public sector salary settlements.**

- The provincial government negotiates salary settlements with the provincial public service. It also negotiates payments to physicians. But more than three quarters of the public sector wages are negotiated by other parties such as health authorities or school boards. The settlements negotiated by these parties have a direct impact on the provincial budget.

- The province has had difficulty anticipating and planning for salary increases. In a three year fiscal plan, the government provides for increases in the subsequent two years of a fiscal plan. But it does not control negotiations and those negotiations may result in salary settlements that exceed the percentage increase in the plan.

- Salary settlements for one group in the public sector have a ripple effect on other areas. In the past few years, double digit salary settlements for nurses and doctors have become the target for other groups looking for significant wage and salary increases.

- The role of the provincial government in collective bargaining processes has become unclear. While the province does not technically play a direct role in negotiations with nurses, most health care workers, or teachers, in recent years, the provincial government has become the principle target of campaigns for salary increases. This has had a direct impact on local bargaining with health authorities and school boards. Instead of negotiating settlements locally, the focus has shifted to pressuring the provincial government for additional funds.

**A number of options for addressing these concerns have been identified.**

- Establishing legislated salary caps - This approach would put strict controls on annual wage increases and would allow more predictable budgeting for salary settlements. However, this would constitute a major intrusion by government in the collective bargaining process. Suggestions were made that this approach would distort the marketplace, would be strongly opposed by public sector unions, and would reduce public sector accountability.

- Introducing more centralized coordination - Several provinces have put mechanisms in place to coordinate salary settlements. They range from highly centralized management of collective agreements in provinces like Quebec and New Brunswick to less coordinated arrangements in provinces like Alberta, Ontario and Manitoba. In British Columbia, a Public Service Employers' Council sets the mandates for the monetary aspect of salary settlements. Employer associations are members of the Council. This approach provides more centralized bargaining and it increases the ability of the province and employers to anticipate and plan for wage increases.

On the other hand, if this kind of approach were adopted in Alberta, it would involve a more direct role of the provincial government, it would affect relationships with unions, it would diminish market forces and the ability to deal with local issues, and it would require legislative changes and more administration.

- Providing better information and coordination - Rather than a more formal coordination mechanism, the province could simply improve its information sharing and provide better coordination within the provincial government and with public sector employers. In this case, funding decisions made as part of the budget process would include a fair but firm allocation for wage increases. Employers would be directed to negotiate settlements within the allocated funding amounts.

Only a few of the submissions made to the Commission commented on the issue of public sector salaries. One submission suggested that the Commission had no role to play in commenting on this issue since it is a matter for collective bargaining. The Commission also heard that compensation for civil servants should follow rather than lead compensation in the private sector and that government should be mindful of the ripple effect when negotiating public sector salaries.

## Consider the impact of government fiscal policies on government-owned funds and agencies

As noted earlier, the province budgets and accounts for its revenues and spending on a consolidated basis. This means that the financial activities of all government-owned funds and agencies are included as part of an overall picture of the government's financial commitments.

There are pros and cons to this approach. On the one hand, it means that government's accounts provide a complete and transparent picture of the province's financial plans and activities. It means separate accounts cannot be used to "mask" financial commitments or liabilities of the province. It improves overall accountability for government and it puts controls on how funds and agencies manage their revenues.

On the other hand, some government agencies and funds think the consolidated approach has a negative affect on their ability to manage their activities. Some agencies and funds such as the Alberta Securities Commission, the Agriculture Financial Services Commission, and various Heritage Fund endowments have their own

dedicated assets. However, because the expenses and revenues of these entities are consolidated, if the agency or fund draws down some of its retained surpluses from previous years, it effectively is spending more than was budgeted. This increases the overall government expense and affects the consolidated government bottom line.

The Commission heard concerns about the lack of flexibility and the impact on the ability of some government-owned agencies to manage effectively. Some suggested they should be exempt from certain aspects of the government's consolidated budgeting while others suggested they should be divested of government control so they could manage on their own without government constraints.

## Review accounting principles

In addition to the concern about the impact of consolidating various entities into the government's overall accounts, the only other accounting issue the Commission heard concerns about was the accounting treatment of capital.

Accounting standards in the private sector account for the declining value of capital items by requiring property and plant and equipment (but not land) to be "depreciated" or "amortized" over their "useful lives." The annual amounts of depreciation or amortization represent an expense that, along with salaries, supplies, rent, taxes, and other expense items, are deducted from annual revenue to determine profits each year.

In contrast, government treats capital in much the same way as it treats other spending. The full amount is accounted for as an expense in the year it is spent.

The majority of presentations on this issue suggested that government should amortize and account for capital over an extended period of time. This issue currently is being addressed by the Public Sector Accounting Board and recommendations are expected in the coming months.

## Ensure efficiency and effectiveness in government

Albertans expect their government to use its resources wisely and to take steps to achieve the best results for the money it spends. In the mid 1990s, the government took extensive action to reduce the number of government departments, boards and agencies, streamline services, get out of providing direct services where those services could be provided better by others including the private sector, and reduce regulations.

**Since that time, the Commission has heard that:**

- Too many departments have been added, with a resulting increase in costs and confusion about where the responsibility for various decisions lies. For example, a post-secondary institution proposing to introduce a new program or initiative, or build a new health-related facility, might have to deal with at least four different ministries - Learning, Health and Wellness, Infrastructure, and Finance.

- Business plans have grown in volume and complexity and are more focused on process than on outcomes and results. The emphasis is primarily on the first year of the plan while the second and third years tend to be mathematical exercises.

- Cross government initiatives are increasing in number each year, becoming more difficult to manage, and have unclear lines of accountability. Many of these initiatives lose momentum as priorities change.

- As noted earlier, there is a need for more long term planning and for a coordinated strategy for Alberta's economy to guide government funding decisions. The necessary skills for this type of long term planning need to be enhanced within the current government organization.

- Generally, smaller more integrated governance structures lead to more rationalization and integration at the delivery level. In order to reduce overhead costs and ensure coordination in school boards, or across post secondary institutions and regional health authorities, it is essential that these units be large enough to generate the economy of scale while still allowing for program specialization and administrative efficiency.

- In the case of health, it is critical that we have a high level of coordination in order to ensure optimization of resources, and that key programs and services are available, properly resourced, and operated to consistently high standards. A strong case can be made to consolidate the number of health regions so that no health authority is small in terms of budget, services, or population served.

- Health being the most sensitive, complex, and costly of all government programs requires an effective policy function at the cabinet, department and committee levels, together with a highly integrated delivery system. Lack of direction and ambiguity at the government level will result in the poor use of resources and less than optimal results at the delivery level.

At the delivery level there needs to be effective governance and oversight together with a high level of integration to ensure the effective delivery of services and the best use of resources. Poor service delivery has a direct impact on the health of the public while the ineffective use of resources can have a significant impact on the province's budget. Governance and accountability at all levels of health must be examined to ensure strong stewardship.

## Other issues and ideas

In addition to the key themes and issues, a number of additional ideas were suggested, many of which are beyond the mandate of the Commission. Examples of those ideas are as follows:

- Pursue better financing arrangements with the federal government. The Commission heard that Alberta is a net "loser" in terms of sending more money to the federal government in the form of taxation than it receives back in various federal grants and transfers. This is particularly a concern with funding for transportation, for health and post-secondary education.

- Provide school boards with a limited ability to tax local ratepayers for education purposes.

- Consider matching grants for funds raised by universities and colleges for scholarships and bursaries to offset increasing costs of tuition.

- Start saving now to pay for future pension plans and health care - establish a fund for these purposes.

- Look at the tax system - Increase oil royalties, limit reductions in other taxes (others suggest referendum required for all tax increases), eliminate health care premiums (alternative suggestion to increase premiums), limit further reductions in corporate income taxes (alternative suggestion to proceed immediately with planned reductions), introduce a new and more stable form of taxation to replace income tax, make changes to the single rate tax system to provide more progressive taxes, introduce new environmental taxes on industries that don't reduce greenhouse gas emissions and to promote conservation of oil, gas and water, introduce variable gasoline taxes, and increase taxes on intensive livestock operations.

- Address concerns about funding for long term care and take action on reducing elder abuse.

# Goals and Principles

## Achieving a vision

The Commission feels strongly that any changes to the current fiscal framework should support a vision for the future of the province and be grounded in clear principles.

The Government of Alberta has set the following vision:

*"A vibrant and prosperous province where Albertans enjoy a superior quality of life and are confident about the future for themselves and their children."*

The province also has set out several economic goals in its economic development strategy, *Get Ready Alberta*.

It is not appropriate for the Commission to set a new or different vision for the province - that is the job of government in consultation with Albertans. However, the Commission feels strongly that the fiscal framework and the fiscal decisions government makes should be put in place for a purpose - and the purpose is to move the province forward in achieving an overall sustainable economic vision for the future.

## Setting principles

A fiscal framework for the province should reflect clear principles. The Commission suggests the following principles should guide government's decisions in putting a fiscal framework in place.

***Transparency*** - Albertans should have a clear picture of the province's fiscal situation, including revenue and spending.

***Stability*** - Alberta's fiscal framework should provide stable and predictable funding for essential government programs and services.

***Equity*** -The costs of today's programs and services should be paid for by Albertans today, not passed on to future generations.

***Balance*** - Alberta's fiscal framework should provide a responsible balance among important priorities including: spending on essential programs (e.g. health, education, social services, environment, safety, etc.), paying down Alberta's debt, building and maintaining infrastructure, and investing in new initiatives for the future.

***Sound accounting and reporting*** - Alberta's accounting and reporting practices should continue to be consistent with accounting standards set across the country. The Alberta government should continue to follow the highest standards in accounting and financial reporting practices and account openly and consistently to all Albertans for the management of the province's finances.

***Sustainability*** - The province should plan for responsible funding to ensure that essential programs and services are sustainable over time.

## Setting objectives

In preparing recommendations on changes to government's current fiscal framework, the Commission listened carefully to the many ideas and suggestions brought forward by various individuals and organizations. In many ways, the key question for the Commission came down to this: If we are going to recommend changes to the fiscal framework, what is it we are trying to achieve?

The Commission's recommendations are intended to guide the government in achieving the following objectives:

- ***Supporting a longer term, sustainable vision for the future*** - Alberta's fiscal framework should be tied to and support a vision for the province's future, including economic and social goals for the province.

- ***Enabling long term planning*** - Many submissions have called for an end to "stop and go funding," more stability and predictability, and a return to more discipline around three year business plans.

- ***Providing stability*** - Although the province's revenues will inevitably be tied to the ups and downs of resource revenues, there should be a way of providing more stable budgeting to support essential government programs and services on an ongoing basis. Alberta's fiscal framework should provide a mechanism for dealing with the peaks and valleys of the province's revenues.

- ***Establishing a better way of managing and funding capital*** - Paying for capital as an annual expense causes problems, particularly in relation to transportation. The province's fiscal framework should provide a more effective way of planning for and funding capital on a longer term, stable and predictable basis.

- ***Paying down Alberta's debt*** - Debt repayment is an important priority, but needs to be balanced with the need for stability and sustainability. The government should continue to pay down Alberta's debt at a reasonable pace.

- ***Promoting efficiencies*** - The government should continue to review the organization and delivery of government and government-related services to ensure greater efficiency and effectiveness (e.g. health authorities, government ministries, etc.).

- ***Opening up the planning process*** - The government's budget and business planning process should provide opportunities for stakeholders (e.g. municipalities, health authorities, school boards, etc.) to provide input, information and advice.

# Recommendations

Based on the Commission's review of submissions, issues and ideas for potential changes to the province's fiscal framework, the government has the opportunity to build on its solid record of success and move from a fiscal framework that is good and meets the requirements of the past to one that is great and can build this province into a powerhouse for the future.

Consistent with that objective, the Commission has developed the following set of recommendations. The Commission has had the advice of several technical advisors who have done preliminary work to assess whether the proposed new framework is fiscally sound and can achieve the results we expect. While further refinements and detailed analysis are required, the preliminary analysis confirms that the new directions proposed by the Commission are workable and will achieve the objectives we set.

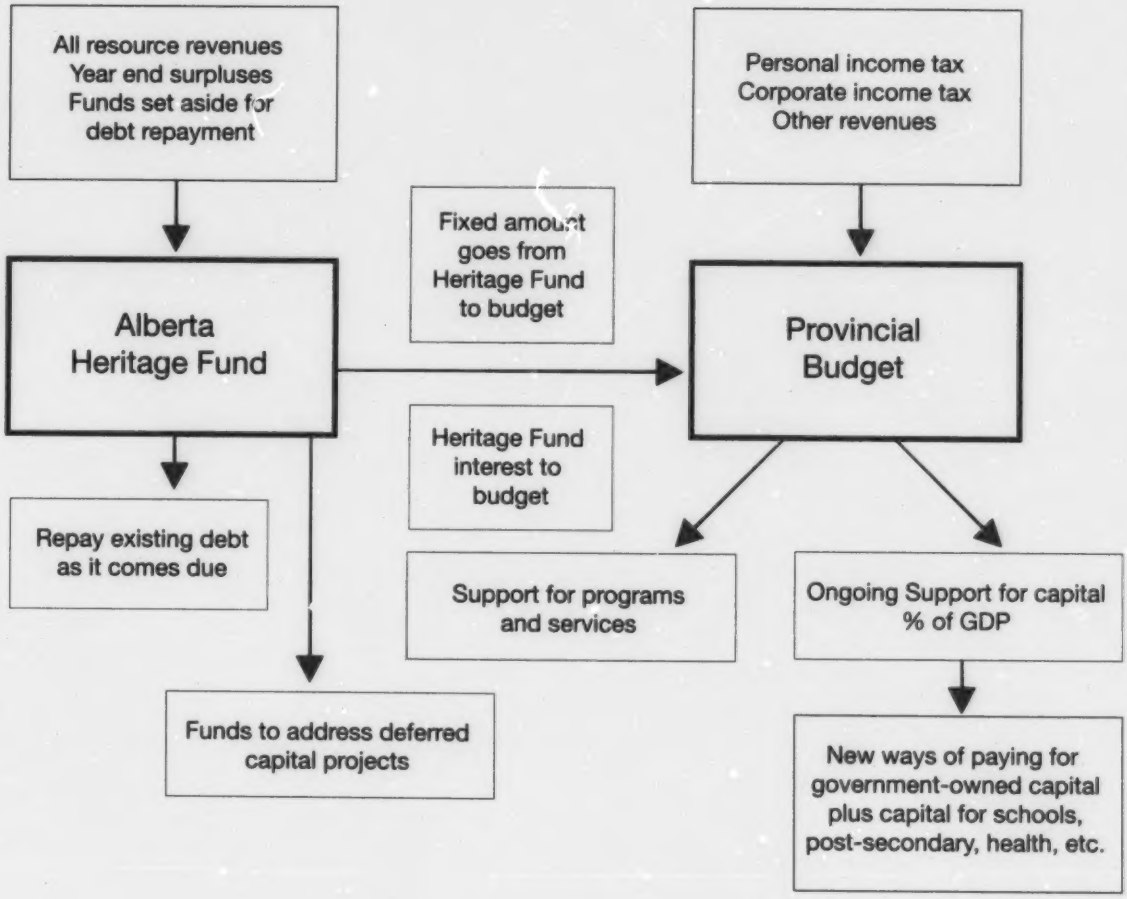
## Introducing a new fiscal framework

Taken together, the Commission's recommendations represent a new fiscal framework for the province. As outlined in the Executive Summary, the key elements of the proposed framework are as follows:

- **We can't count on resource revenues forever. It's time to plan now for the time when resource revenues decline.**
- **Government must develop and clearly articulate a strategic plan for achieving a sustainable economic vision for the future.**
- **It's time to set a bold new purpose for the Alberta Heritage Savings Trust Fund. It should be retained, given a new purpose, and allowed to grow.**
- **In a resource-based economy, revenue volatility is a given, but government should move to more stable and predictable spending.**
- **The province should proceed with an orderly plan to pay down existing debt as it comes due.**
- **A new approach to capital planning and funding is required.**
- **Government should continue to strive for efficiencies in how services are organized and delivered.**
- **Government should continue to be a national leader in public sector accounting and financial reporting and maintain its commitment to providing full, accurate and informative reports on its performance to Albertans.**

Consistent with those fundamental directions, the following recommendations outline the key components of a new fiscal framework for the province. The following chart describes the framework in general terms.

# A New Fiscal Framework


All resource revenues
Year end surpluses
Funds set aside for debt repayment
Personal income tax
Corporate income tax
Other revenues
Fixed amount goes from Heritage Fund to budget
Alberta Heritage Fund
Provincial Budget
Heritage Fund interest to budget
Repay existing debt as it comes due
Support for programs and services
Ongoing Support for capital % of GDP
Funds to address deferred capital projects
New ways of paying for government-owned capital plus capital for schools, post-secondary, health, etc.

## Stabilizing spending

One of the pressing problems in the current fiscal framework is the unpredictability of funding decisions because of Alberta's continued reliance on volatile non-renewable resource revenues. The province truly is faced with a mixed blessing. On the one hand, we are fortunate to enjoy the benefits of being a resource rich province. On the other hand, this makes us vulnerable to the ups and downs of the volatile marketplace and a number of factors which are beyond our control. The objective is not to eliminate the volatility of the province's revenues - that objective simply cannot be met. We can and we should attempt to mitigate the risks through appropriate risk mitigation strategies. However, as long as we are dependent on oil and gas revenues, we will continue to be subject to the ups and downs of a marketplace we do not control.

At the same time, the province can take steps to reduce the impact of this volatility on its funding decisions and on all aspects of the public sector that rely on stable, predictable funding plans. In this context, the Commission believes that Alberta needs a stabilizing mechanism to smooth out the peaks and valleys of provincial revenues.

Introducing a stabilizing mechanism is a trade-off. An effective stabilizing mechanism means that public sector organizations will have more certainty and stability in funding and will be shielded from unanticipated downturns in non-renewable resource revenues. At the same time, let's be clear. It also means they will not have the same benefits from anticipated windfalls and sharp increases in resource revenues. Stable, predictable revenues are just that - stable and predictable. Organizations that depend on provincial government funding will not have to face the lows of funding during downturns but will also give up access to the surpluses that develop during upswings in the price of oil and gas.

In terms of what kind of a stabilizing mechanism should be established, the Commission considered suggestions for a separate stabilization fund. But experience in other jurisdictions suggests that, in the absence of clear legislation and limits, stand alone stabilization funds are rarely successful in achieving that purpose. Funds are drawn out whenever there are downturns but those funds are not repaid into a stabilization fund nor are sufficient funds set aside in good times - they just become a target for more spending.

The Commission believes that the Alberta Heritage Savings Trust Fund should be used in a bold new way to enhance Alberta's fiscal framework and provide more stability in the province's spending plans.

Alberta's Heritage Fund is a tremendous asset. But in recent years, the purpose and intent of the Fund has frequently been called into question, particularly whenever the province is in a position of restraint or temporary economic downturns. Many have asked, and rightly so, what is the purpose of the Heritage Fund? At the time the Fund was established, it was intended to serve a variety of purposes, including preparing for the day when Alberta may no longer have the long term benefits of significant oil and gas reserves.

In today's world, given the challenges we are facing, it's important to address key questions about what we are saving for and what role the Heritage Fund could play in addressing the problems of today, not just preparing for a more distant future. Rather than leaving it as a static "savings account" the Commission believes that it can play a dynamic and essential role in a new fiscal framework for the province.

Therefore, the Commission recommends that:

1 *The Alberta Heritage Savings Trust Fund should be retained, strengthened, allowed to grow, and renamed the "Alberta Heritage Fund" with four new purposes:*

- *To stabilize the impact of volatile resource revenues on the province's budget*
- *To manage the orderly pay down of existing debt as it comes due*
- *To address the backlog of deferred capital projects in the short term*
- *To serve as a transition to the time when resource revenues decline and as an integral part of the province's strategy for achieving a sustainable economic vision for the future.*

2 *To provide stable and predictable funding, the Commission recommends that all non-renewable resource revenues should go into the renewed Alberta Heritage Fund on an annual basis. All year end surpluses should also go into the Heritage Fund.[8] A fixed and sustainable amount of resource revenues should be drawn out each year to support the government's budget.*

[8] Surpluses transferred into the Alberta Heritage Fund would be net of the retained income of certain funds and agencies, e.g. ATB Financial and the reinsurance fund of the Agriculture Financial Services Corporation.

Consistent with those recommendations, this is how the new framework would work.

- A fixed amount of resource revenues should be drawn out annually to support the province's budget. This would have a "smoothing effect" on the province's budget and allow for more stable, predictable and longer term funding. The concept of "windfalls" would be removed. Organizations that depend on government funding would get stable, predictable funding. The trade-off is that "peaks" in revenues would not be available for spending on a one-time or annual basis.

- This fixed amount should be set at a conservative and sustainable level. We recommend the lesser of $3.5 billion (the historical average over the past 20 years excluding the spike in revenues in 2000-2001) or the average of resource revenues for the previous three years.

- The amount to be drawn from resource revenues should initially be fixed for a period of three years then reviewed subsequently every three to five years.
  - The amount to be transferred to the budget each year should be reviewed and adjusted periodically but not on an annual basis. Annual adjustments would result in the same volatility as the current budgeting process.
  - Any change in the fixed amount should be governed by legislated rules and require approval by the Legislative Assembly.

- Ideally, given the fact that resource revenues will decline in the future, the Commission believes that the Fund should be "inflation proofed" and only returns in excess of the rate of inflation should be removed from the Fund. Currently, all investment returns from the Heritage Savings Trust Fund go into the general revenues of the province and are used as part of the province's annual budget. The Commission recommends that this practice should continue with the renewed Alberta Heritage Fund, but that government should strive to phase in a fiscal plan where the fund is inflation proofed.

- The annual budget should include an allowance to cover unexpected events and contingencies which arise during the year and also to cover capital funding required under the new capitalization and amortization of assets approach. The size of the allowance could be reduced from the current 3.5% to 1.5%[9] of expected revenues because, under the Commission's framework, there will be less volatility in annual revenues as a result of providing a fixed amount of resource revenues each year.
  - With a smaller allowance for contingencies and capital funding, more funds would be available on an annual basis for spending priorities including capital.
  - The allowance for contingencies could be used to make necessary spending adjustments during the year, particularly to respond to emergencies such as forest fires or drought.

[9] In addition to a 1.5% allowance for contingencies and capital funding, an amount needs to be set aside for the retained income of certain funds and agencies.

- The government should continue to be required to balance its budget on an annual basis; however, some changes may be required to the definition of a "balanced budget" in order to accommodate changes in how capital projects are funded.

- For a very few special cases, it would be appropriate if the definition of balanced budget excluded the results of some consolidated government entities. For example, the Alberta Securities Commission obtains most of its funding from non-government sources and should be excluded. The Agriculture Financial Services Corporation should also be excluded because of its unique funding relationship with the federal government and agricultural producers together with the statutory nature of its programs.

- We expect the renewed Alberta Heritage Fund to continue to grow and, by 2025, the Fund could be more than double its current value. The Fund will grow as a result of:
  - Flowing all resource revenues into the Fund
  - Using a conservative and stable approach to withdrawing a fixed amount out annually for budget purposes
  - Putting surpluses into the Fund
  - Inflation-proofing the Fund in the longer term.

- Once debt is repaid and the Fund is growing at a more rapid pace, government will need to consider how large the Heritage Fund should grow and how it should be used as an integral part of a strategy for achieving the province's sustainable economic vision. The Commission would not support any use of the Heritage Fund for specific loans, guarantees or investments in business ventures or in direct government interventions to diversify the economy.

- The Fund should be managed in a conservative manner with consideration given to using financial instruments to mitigate some of the risks around resource revenues.

## Paying down Alberta's debt

The provincial government has made substantial progress in paying down Alberta's debt and many Albertans believe that paying down the debt should continue to be an important priority for the province. The Commission agrees. A debt-free Alberta is an important legacy for future generations of Albertans.

At the same time, debt repayment should be balanced with other priorities such as providing funding stability, ensuring sustainability of essential programs and services, meeting pressing needs, building a strong economy and keeping Alberta's taxes competitive.

Consistent with this approach, the Commission recommends that:

3 ***The renewed Alberta Heritage Fund should provide the vehicle for managing the orderly pay down of existing debt as it comes due.***

This approach means that funds in the Alberta Heritage Fund would be used to pay down Alberta's debt in an orderly fashion but still ahead of the legislated schedule. According to Alberta Finance, all but about $2.2 billion of Alberta's remaining accumulated debt would be repaid by 2005/06 and the debt would be virtually eliminated by 2013. That means all of Alberta's existing debt would be repaid ahead of the legislated schedule.

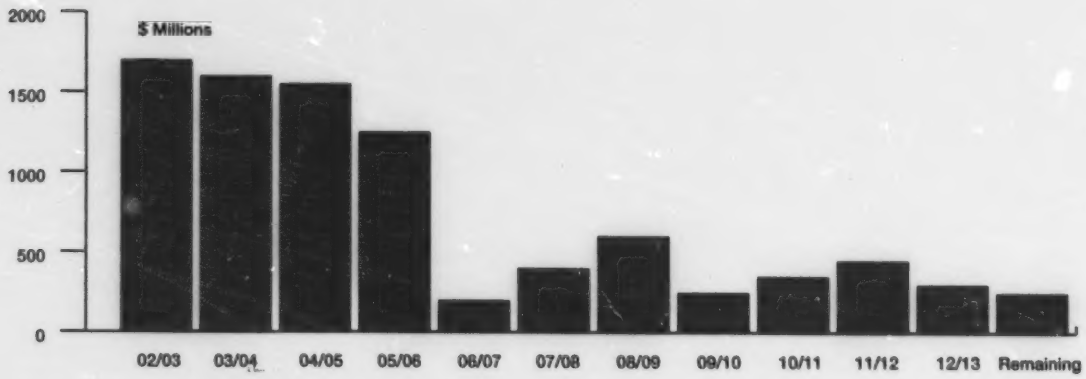
In the mean time, funds would be set aside in the Heritage Fund to ensure that those payments can be met when they come due. The province could plan for a smaller contingency allowance rather than having to plan for a significant amount of funds at the end of the year to make a minimum payment on the debt.

The Commission believes that, through a combination of resource revenues, year-end surpluses and sound investment policies, the Alberta Heritage Fund will continue to grow at a moderate rate and generate sufficient revenues to pay down debt as it comes due and to provide stable revenues to the province's budget. We do not believe that the required debt payments will substantially deplete the current resources in the Heritage Fund, particularly not in the longer term.

**Consistent with this approach, the Commission recommends that:**

- The $3.2 billion from prior years' surpluses that currently is set aside as assets to cover debt repayment should be transferred to the Alberta Heritage Fund and used to pay down debts as they come due.
- The province would no longer need the current rule that, at the end of the year, 75% of all remaining revenues would go to pay down Alberta's debt. All remaining funds at the end of the year would automatically go into the Heritage Fund and the necessary funds would be set aside for paying down debt as it comes due.

## Accumulated Debt Maturity Schedule[10]




[10] Alberta Finance, June 2002

## Implementing a new approach to capital

"Capital" is a word that means different things to different people. It isn't a single, uniform concept and its meaning varies with how the term is being used. Broader definitions of capital include investments not only in physical assets but also in human or intangible assets such as training, education, research and development, prevention programs, or programs aimed at improving the well-being of citizens. For the purposes of our report and recommendations, the Commission has adopted the most commonly understood definition of capital which refers to physical assets - buildings, roads and highways, bridges, equipment, dams, and water management structures.

As noted earlier in our report, the Commission heard a number of concerns about the current method of funding capital, the impact of "ups and downs" in funding, the need for stable long term funding, and the backlog of projects and maintenance currently on the books.

**The Commission believes that:**

- Stable and predictable funding should be provided for capital on a go forward basis. In the past, government has used capital funding as a kind of "cushion" in its budget. Projects have been deferred and delayed when there is a shortage of funds and one-time funding has been provided when there are surpluses. This practice has led to unpredictable capital funding and should be replaced with a more stable, long-term approach.

- Capital decisions must be sustainable. All capital projects should have funding fully identified before the work begins. In this way, government can fully evaluate the likely costs and benefits of specific projects before funding decisions are made.

- Funding for capital projects should not be limited to the amount of cash available in a particular year. The government must consider alternative funding mechanisms to allow projects to move forward. This could include project specific financing, leasing, mortgages, and private-public partnerships, commonly referred to as P3s.

- Capital for the maintenance of the province's physical assets has been deferred for too long and must be addressed.

- Capital spending on infrastructure creates attendant operating costs and this must be taken into account in the province's longer term planning.

The essential components of the proposed capital framework are as follows.

## Ongoing capital funding

The Commission recommends that:

4. ***A portion of the province's annual budget should be allocated to capital spending. The amount should not be less than 0.9% of the average of the province's GDP for the previous two years.***

While it is difficult to anticipate how much the province should spend on capital on an ongoing basis, some benchmark is needed to provide planned and stable, long term capital funding. Using a percentage of GDP not only sets a benchmark, it also reflects the state of Alberta's economy and tracks needs. If the economy is growing, demands for capital should be greater to accommodate growth. When the economy is not as strong, demands for capital should be less, therefore less funding should be required.

If this kind of benchmark had been in place for the 2002/03 budget year, approximately $1.3 billion would have been allocated to capital, slightly more than provided this year. Prior to the last two years, spending on capital averaged over $1 billion a year since 1992-93. In the last two years, more than $5 billion has been spent on capital.

On a go forward basis, the allocation of funds for capital projects should also include sufficient funding for ongoing capital maintenance so that the province does not, once again, get into the position of having a significant backlog of deferred maintenance.

In the case of Alberta's municipalities, it is becoming increasingly apparent that the long term performance of the Alberta economy and Alberta's living standard will hinge directly on the economic performance of municipalities, including the two major cities. For this reason, the Commission supports the concept that revenues should follow spending requirements. While this is not solely a capital issue, it has particular implications for the funding of infrastructure in municipalities. The province has initiated discussions through the Minister of Municipal Affairs Task Force Roles, Responsibilities and Resources for the 21st Century. These discussions, together with negotiations on different funding options, should lay the groundwork for new fiscal arrangements between the province and municipalities and are an important step in determining the province's future prosperity.

The Commission also understands that there is uncertainty around capital plans for government-owned buildings and for infrastructure projects including transportation. Capital plans are prepared in various ministries, but an overall capital plan is not included in the government's annual budget. In addition, there is a significant problem with funding capital projects on an annual basis. If funds are not spent on a particular project, those funds will lapse at the end of the year. To address these problems, the Commission recommends that:

5 ***Government should prepare a three to five year plan for capital and infrastructure projects and include that plan as part of its annual budget. Changes should be made to existing legislation to allow funding for specific approved projects to be carried over from one fiscal year to the next.***

The Commission can't emphasize enough the need for planned and visible capital spending. This approach will provide a more stable and predictable capital plan as well as providing needed flexibility in flowing money from one fiscal year to the next. Funds that are carried forward must be used only for the projects that had been approved and should not be reallocated to new projects or priorities.

*"If we want to build a Harvard, a Yale, or a Mayo Clinic North, and we can do it in Alberta, we need a vision that goes beyond three-year business plans and the means to ensure our building infrastructure continues to serve Albertans now and for generations to come."*

*Hon. Ty Lund, Minister of Infrastructure*

## Deferred capital projects

The Commission understands that there is a significant backlog of deferred capital projects. In the same way that debt must be repaid, so must government's commitments to spending be honoured. The Commission recommends that:

6 ***Funds in the renewed Alberta Heritage Fund should be allocated to address the current backlog of previously committed capital projects in a planned and orderly way.***

Currently, there are a number of capital projects that have been approved by government but funding is not available for them to proceed. Because the ongoing allocation for capital on a go forward basis is not sufficient to deal with this backlog, the Commission recommends that the Heritage Fund should be used to eliminate the backlog of approved but deferred capital projects.

Appendix 3 outlines the list of deferred projects provided to the Commission. The total cost of these projects is in the order of $800 million. The Commission recommends that:

7 ***Government should produce and publish the list of committed but deferred capital projects as part of its annual budget and report each year on the status of those projects.***

## Alternative ways of funding capital

The Commission believes that setting an allocation target for spending on capital and dealing with deferred projects and maintenance will go a long way to providing stable, predictable funding and addressing current problems particularly with government-owned capital such as roads, highways and buildings.

At the same time, we believe a case must be made for considering alternative funding arrangements for capital on a case by case basis. Currently, there are projects that are an essential part of Alberta's long term future plans, but the province simply cannot afford to build them using only funds available in annual budgets. For example, research facilities bring engineering, health and economic benefits to the province. If the province cannot proceed with these facilities, it risks losing those benefits as well as losing the ability to attract talented people to our province and continue to grow our economy.

In terms of government-owned capital projects, the Commission believes that alternative ways of financing should be explored on a project by project basis. While the Commission is reluctant to recommend that the province should mortgage all capital

projects, we believe an argument can be made for alternative ways of funding specific capital projects provided that full funding for each project is identified before the project proceeds. That means government would have to identify the full costs and, if there is longer term financing involved through a public-private partnership, leaseback or mortgaging arrangements, the details of how the funds would be repaid need to be identified and disclosed.

The Commission understands concerns about any possibility of increasing provincial debt. Paying down Alberta's debt has become a high priority and it is an important goal. However, we believe there is a significant difference between using debt to finance deficits and over-spending and using debt for capital projects that will benefit generations of Albertans. The Commission believes the benefits of providing more flexibility in funding arrangements for capital projects far outweigh the costs of using alternative funding.

The Commission also believes there are significant problems in funding the capital requirements of government-funded entities such as school boards, health authorities, and post-secondary institutions.

There is also a need to encourage better long-term capital planning among these entities so that they are required to anticipate all of their current and future capital requirements. Too often, because money does not come out of their own budgets, capital funding is viewed as "free money" and it can distort decisions. These entities have to recognize that there is an "opportunity cost" of capital. The "hit and miss" approach to this "free money" exacerbates the problems in planning for long term changes and improvements in staffing and productivity. With a new approach to funding capital, government could:

- Put the public sector on the same footing as the private and voluntary sectors, particularly in long term care
- Provide more accountability for capital and operating budgets and ensure better capital and operating decisions in the various entities
- Force realistic multi-year budgets
- Reduce or eliminate "March madness" where funds are spent in the last month before the end of the fiscal year so they are not lost
- Provide greater flexibility to entities in securing funding for necessary capital provided that clear rules and conditions are met
- Provide for a planned, early start and rapid build-up for addressing the capital needs of government-funded entities
- Provide long term, stable capital funding, ensure better long term vs. short term decisions and provide more certainty for longer term planning for staffing needs.

**The Commission recommends that:**

8 ***Government and government-funded entities should be allowed to enter into alternative funding arrangements for capital projects under specific conditions and with appropriate guidelines in place.***

The Commission recommends that government and government-funded entities should have the option of entering into a variety of alternative funding arrangements including leases, leasebacks, public-private partnerships (P3s), and government-financed arrangements. Alternative funding arrangements should be approved on a project by project basis. Conditions and guidelines need to be in place to limit the amount of debt that could be incurred for capital and also to ensure that there are clear plans in place for repaying that debt, just as individual homeowners have plans in place for paying back their mortgages. For government entities, the Commission suggests that:

- The Alberta Municipal Finance Corporation can be used to fund many of the entities' projects including the possibility of pre-packaged finance deals as an alternative to private financing.

- Entities could use this source of funding for:
  - New capital construction
  - Equipment
  - Matching fund programs that could be introduced by the federal government or other opportunities as they arise.

- Entities would be allocated a fixed amount of capital funding as part of the government's ongoing capital plan. Government could adjust these allocations periodically depending on overall infrastructure needs and the government's financial picture.

- Entities would be able to use their capital funding allocation to meet their capital requirements and also to borrow funds (within appropriate guidelines) from the AMFC to fund major capital projects. Their capital plans would need to include detailed information on how their capital budget is to be spent, including funds set aside in the capital budget for debt repayment over the longer term. Entities would have to pay for interest on the debt out of their operating budgets, supplemented by their flow of funds for capital.

- The following guidelines should be in place:
  - Entities should not use operating funds for capital debt principle payments.
  - Future maintenance must not be deferred. Consistent with the Commission's recommendations, a mechanism should be in place to measure and monitor deferred maintenance.
  - Government should develop rules and guidelines for projects that are debt financed.

*"Public debts in Canada have been generated largely ... by operating deficits. ... Taxpayers have every reason to see the size of the public debt as evidence of poor financial management, and they have every reason to be angry.... However, ... the same taxpayer see little that is reprehensible about debt held as mortgages. ... If we had to save the full purchase price before buying a house, most of us would be renters for life. Some kinds of debt, therefore, are not only acceptable*

*continued page 61...*

- Government must still approve each project prior to it being considered for alternative financing. A timely approval process should be put in place based on government's priorities and principles and possibly including some rules on debt service ratios.
- Approval from government should not be required for projects that are built and financed by entities using their ancillary revenue, as long as the entities have pledged real security and there is no recourse to the entity.
- Government could dictate the multiplier to limit the amount of debt and also provide a requirement for entities to pay some of the costs up front from their capital allocations to ensure that they are fully committed.

Allowing government and government-funded entities the option of considering new approaches to financing capital projects will provide more flexibility and allow certain projects to proceed. At the same time, it is important that these arrangements be carefully reviewed and approved on a case by case basis. Therefore, the Commission recommends that:

**9** ***All capital project proposals should include a business plan that clearly outlines the funding model and cost implications including operating costs, amortization, and debt repayment if applicable. Government should have the option of funding approved capital projects over a longer term or paying the full cost of the project in a given fiscal year.***

## Deferred maintenance

In terms of deferred maintenance, the Commission recognizes that this is a serious issue that needs to be addressed. Therefore, the Commission recommends that:

**10** ***Standardized methods for estimating and reporting on deferred maintenance and utilization, functional obsolescence, and efficiency of facilities should be established and communicated. Government and its funded agencies should use these tools in their planning and reporting.***

Currently, there is no consistent way of estimating deferred maintenance costs but the Commission understands that the costs could be in excess of $2 billion. The problem needs to be quantified through a consistent approach.

*continued from page 61...*

*but desirable in that they enable us to achieve goals that otherwise would be next to impossible. The only questions we ask is whether we can afford both the interest and payments on the principle, and if we can weather a future increase in interest rates. If we can, then no moral evil is attached to carrying a mortgage, or perhaps even a car loan."*

*Roger Gibbons, President and CEO, Canada West Foundation, taken from Calgary Herald, February 10, 2002.*

A clear definition of deferred maintenance must be used by all parties and should include code deficiencies, systems failures, etc. Regular maintenance items such as carpet, painting and preventive maintenance must be funded from operating costs.

The Commission suggests that the province should develop a Province Wide Facility Condition Index (FCI) for its own use and that of its funded agencies to measure the current condition of buildings taking into account all factors. This would provide a province wide asset condition report. Benchmarks should be set for each sector. In addition to providing an estimate of deferred maintenance, this approach could also be used to guide decisions on whether existing buildings or infrastructure should be upgraded or replaced.[11]

The Commission understands that some work has been done by the province to gather information on deferred maintenance for all schools and post-secondary institutions. There are lessons to be learned from that exercise. The Commission strongly supports these efforts and encourages the Ministry of Finance to work with the various ministries and agencies to complete this task and to implement its results. In addition, the provincial government, working with municipalities, should endeavor to report on the condition of assets owned by municipalities.

In addition, the province should continue to develop a utilization/functional obsolescence, efficiency index to measure the effectiveness in meeting program delivery needs. It makes little sense to upgrade a facility that has low occupancy and attention should be focused on delivering the program in some other manner or facility.

The use of both indices with a clear definition of deferred maintenance and the responsibility to pay for maintenance out of operating funds will result in more accountability and lower costs for service providers. In combination with the rest of the information provided in the audited financial statements, data on deferred maintenance and utilization will enable policy makers to develop sound plans for maintaining existing assets and spending on new ones where that is advisable.

**11** ***The province should develop a plan for addressing deferred maintenance over the next five years. Funding for deferred maintenance should be identified as a component of the province's annual budget.***

Once the extent of deferred maintenance has been identified, the province should develop a plan for addressing deferred maintenance in a systematic way over the next five years, using the annual budget. In future, a reasonable portion of the province's budget should be allocated to maintenance on an ongoing basis to prevent the recurrence of this problem.

[11] FCI is calculated by dividing the estimated deferred maintenance by the replacement value of the infrastructure. The FCI can be used to encourage upgrading existing infrastructure or demolishing an asset in order to improve overall FCI.

## Improving planning, budgeting and delivery of services

### The need for long-term strategic planning

The Commission consistently heard about the need for more long term planning. The Commission also believes that it is important to reinforce the rigor in the business planning process and to focus business plans more on outcomes and results and less on processes and activities. A clear strategic focus is needed.

12 *Government should develop and clearly articulate a strategic plan for achieving a sustainable economic vision for the province. The government's business plan should be refocused as a strategic plan to achieve the vision and to provide criteria for setting priorities and making budget decisions.*

13 *The current business planning process should be strengthened by requiring all government ministries, organizations and agencies to focus on measuring their decisions against strategic goals linked to the government's strategic plan. Activities and operational matters should be left for internal operational plans.*

Currently, government prepares a three year fiscal and business plan. However, the plan is not clearly linked to an economic vision for the province and there is no clear strategic plan for moving the province forward on a longer term basis. The Commission believes a strategic plan for government and ministries along with a rolling three year fiscal plan would help focus government initiatives and decisions and help achieve the vision they set.

Provincial departments and government-funded organizations such as health authorities, school boards, post-secondary institutions, and agencies are also required to prepare three year business plans every year, including performance targets. But in recent years, these plans have become more focused on activities and operational matters rather than on providing a clear, strategic direction for the various organizations and government overall.

The Commission suggests that the current business planning process could be improved by making the government and ministry plans more strategic and leaving more detailed operational plans to the various organizations. Therefore, the Commission suggests that:

- Strategic business plans should be:
  - prepared annually
  - integrated with performance measurement and
  - included as an integral part of the budget justifications sent to the Legislature.

- Government should take steps to enhance its strategic planning capability, possibly resident in a ministry with a mandate for ongoing and long range strategy.

- The strategic plans of the agencies and their annual budgets should, where appropriate, reflect the life-cycle cost issues of their capital assets.

- The Ministry of Finance should standardize the formats of these plans, in consultation with other relevant government departments, to make them more useful to policy makers.

- The Ministry of Finance should expand its efforts to evaluate the plans and facilitate the government's use of them for government-wide planning.

## Improving the budgeting process

We recognize that elected officials are responsible for all decisions as part of the budgeting process. However, we believe it would be useful to provide more opportunities for input from municipalities, health authorities, education institutions, etc. This could include processes for involving stakeholders in identifying issues and pressure points, establishing priorities, and considering options. This process would also be useful to government in helping to manage expectations.

The Commission recommends that:

**14** ***Standing Policy Committees should be given increased responsibility for gathering information from various stakeholder organizations and providing this input to the budgeting process.***

Standing Policy Committees would be expected to request input and presentations from stakeholder organizations. They could provide a forum for dialogue with the various organizations, and be responsible for coordinating this input and providing it to the responsible ministries to guide the budgeting process. This process could also be used as a framework for reviewing strategic plans on an ongoing basis.

## Improving efficiencies and delivery of services

Government made substantial progress in achieving efficiencies in the mid 1990s, but since that time, the number of departments has grown and there are overlapping responsibilities. The Commission believes that government should continue to strive for efficiencies through smaller, more integrated governance structures, fewer departments, better rationalization and more integration of services.

While it is not within the Commission's mandate to make specific recommendations on a number of issues related to improving efficiencies, the Commission notes in particular that a case can be made for consolidating the number of health regions and for reviewing governance at all levels of the health system to provide economies of scale and ensure strong stewardship of resources.

The Commission also recommends that:

15 ***There should be a regular reviews, including benefit-cost assessments, of all major government programs, policies, and delivery mechanisms. The number of departments and agencies should be reviewed.***

There should be rigorous scrutiny and an ongoing effort within the provincial government to analyze the benefits and costs of all major government programs, so that they can be adjusted, refashioned, or eliminated, as appropriate. The Ministry of Finance and the various agencies and organizations funded by government should be given the resources to carry out this important function.

16 ***The government should explore various incentives to encourage ministries and government-funded agencies to manage their budgets and assets more efficiently.***

The government should experiment with incentives to encourage ministries and agencies to manage their budgets and assets efficiently. One possibility might be to allow, on an experimental basis, one or more agencies to keep a limited portion of the revenues they raise from selling or renting out existing assets.

## Mitigating risk in expenses and revenues

With a new, more stable approach to government revenues, the importance of accurately predicting the annual price of oil and natural gas and forecasting annual resource revenues for the province becomes much less significant to government's spending plans. This more stable approach certainly mitigates volatility and helps government manage its resources in a more stable and predictable way.

At the same time, there continue to be risks to government's spending and revenues including forest fires, drought, interest rate and exchange fluctuations. Therefore, the Commission recommends that:

17 ***The government should undertake a review and risk analysis of all the major components of its expenses and revenues, including its dependent boards and agencies, with a view to developing a comprehensive, cost effective risk mitigation strategy.***

The Commission has not had the opportunity to review specific options, but the review should include the relative benefits of insurance and re-insurance, alternative ways of managing the risks of weather-related costs and energy prices, and the use of forward pricing options such as hedging, collars, derivatives and swaps.[12]

## Addressing public sector salary settlements

As noted earlier, the public sector is a "people business." The vast majority of the programs, services and costs involve people - from nurses and doctors to teachers, instructors, professors, social workers, and prison guards. Government is directly responsible for only a portion of the salary contracts with public sector employees; the vast majority of contracts are negotiated with school boards, post-secondary institutions, and health authorities.

The Commission believes that people in Alberta's public sector should be paid competitive wages and benefits so that we are able to attract and retain the people we need. Alberta faces a highly competitive marketplace, particularly in areas where there are existing or looming shortages of highly skilled people.

At the same time, salary settlements have a direct impact on government budgets and in recent years, settlements that threaten the province's sustainable ability to pay have driven up overall costs to the province, and to Alberta taxpayers, and have, in effect, mortgaged future opportunities.

The Commission considered a number of options for addressing concerns related to public sector salary settlements ranging from more centralized control by government to a decentralized role. The pros and cons of these options were also considered.

The Commission believes that stabilizing resources and fixing the amount of resource revenues that can be spent each year should mitigate the demand for salaries and benefits that are higher than available budgets. Windfalls will no longer be available for government spending. It requires the government to say, "The budget is the budget," since no additional

[12] The approach the Commission suggests is what is termed "enterprise risk management." This is a common tool in the private sector that offers considerable potential in addressing a variety of government risks, including interest and exchange rate fluctuations, weather and forest fires.

funds would be available to bail out government-funded organizations if negotiated settlements are above their budget. Boards and agencies that negotiate settlements higher than their budgets would have to live with the consequences. In terms of its own staff and various groups it negotiates with directly, government should carefully consider the ripple effect those settlements have on other unions and organizations in the public sector.

The Commission recommends that:

18 ***The government should not be involved in public sector salary negotiations where it is not a signatory to the collective agreement.***

19 ***Government should play a more direct role in establishing a framework for public sector salary negotiations through a mechanism for sharing information with various employer groups including health authorities and school boards. This would include providing guidance on the province's ability to meet new fixed costs on a sustainable basis and on competitive salary and benefit levels in other provinces and jurisdictions.***

## Financial reporting and accounting policies

The Commission considered how the government reports to Albertans, the scope of entities included in the government's consolidated accounts, the communication of quarterly and annual reports, and a number of related issues.

The province currently provides a number of regular reports:

- Consolidated fiscal plan
- Government and ministry business plans
- Estimates
- Quarterly reports
- Government annual report
- Ministry annual reports.

Taken together, these reports provide comprehensive information about the province's financial plans and results as well as its results for key performance measures. The Commission notes that, overall, the government's financial reporting is excellent. The province is reporting as well as or better than other jurisdictions in Canada. We also are reporting on a more timely basis than other Canadian jurisdictions.

At the same time, we want to continue to improve and provide the best accountability information to the public. We also want to continue to be consistent with what is happening in other Canadian jurisdictions.

In spite of the comprehensive reports prepared by the government, the Commission believes that the vast majority of Albertans do not read the documents nor do they fully understand them. A significant amount of information is readily available on a timely basis to anyone who wants to use it, but the reality is that most Albertans are interested in only a snapshot of the results rather than the detailed information. Continuing efforts should be made to make the reports as user-friendly as possible.

The Commission therefore recommends that:

**20** ***To supplement the government's reporting regime, the government should consider adding the publication of a quarterly and an annual financial summary of the highlights limited to a few pages of material and presented in a simplified, easily readable, plain language format.***

An ad hoc private sector advisory group could be established to assist in the development of the summary.

In terms of the province's consolidated accounts, a number of entities currently are excluded from the government's consolidated accounts. That includes:

(1) Regional Health Authorities (17)
(2) Alberta Cancer Board
(3) Alberta Foundation for Health Research
(4) Alberta Heritage Foundation for Medical Research
(5) Alberta Heritage Foundation for Science and Engineering Research
(6) Alberta Mental Health Board
(7) Public Post Secondary Institutions - (21)
(8) Elementary and Secondary School Educational Boards/Institutions (K to 12)
(9) Workers Compensation Board
(10) Pension Plans - (10)
(11) Improvement Districts' Trust Accounts
(12) Long-Term Disability Income Continuance Plan - (2)
(13) The Special Areas Trust Account
(14) Delegated Administrative Organizations (DAOs) - (16)
(15) Management Bodies (operators of Alberta Social Housing Corporation's housing units) - (144)

The most significant entities in the above group, in terms of size and government dollars, are those related to health, schools, universities, colleges, and technical institutes. The inclusion or exclusion of these entities varies across all Canadian jurisdictions.

We understand that the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) is in the final stages of considering their recommendations and guidelines as to whether an entity should or should not be included in the government reporting entity for purposes of preparing the government's consolidated financial statements. We further understand that this determination will be a matter of professional judgment based partly on the definition of control that is being developed. The proposed definition speaks to the power to govern the financial and operating policies of another organization, resulting in expected benefits to the government or the risk of loss from its activities.

The Commission recommends that:

**21** ***The Government should continue to work with the Public Sector Accounting Board in the development of the government entity proposal. Government-funded entities should be consolidated into the government's accounts and financial statements unless there is a compelling case why a specific entity should be excluded.***

If consolidation does not occur, for whatever reason, then the entities that are not consolidated should be listed and a reason provided as to why they are not consolidated, together with informative supplementary financial information.

If the ultimate recommendations from PSAB do not provide sufficient clarity on the matter of consolidation, then we recommend that the government consolidate on a line-by-line basis all entities to be consolidated for financial statement purposes.

In addition, the government should provide segmented information in the notes to the financial statements in the same manner as in the private sector. Such segmented information should be provided either on a sector basis (i.e. health, education, social services, etc.), a legislative basis, an accountability basis, or on whatever segmented bases is most appropriate. The Audit Committee of the province should closely monitor this matter and report to the Lieutenant Governor in Council.

The focus of the above recommendation is on the government's financial statements. Reporting on an expanded entity in the financial statements may provide a more complete view of government influence, although the degree of government control of some of these entities varies. It is also important to have the consolidated financial statements and government budget on a comparable basis for accountability purposes. The Commission recognizes, however, that the accounting treatment of these entities should not unduly influence the way the government interacts with these entities. As a result, if these entities are included in the government's financial statements, they may need to be brought into the government's budget process in a different way than those entities currently included in the "consolidated budget."

The Commission understands that PSAB has issued a proposal (called an "exposure draft") regarding changes to the government reporting model. A final accounting standard for inclusion in the Public Sector Accounting Board Handbook is scheduled to be approved in October 2002.

The proposed model would recognize government capital property as capital assets in the consolidated statement of financial position, and would charge the cost of using those assets to the annual surplus or deficit of a government over the useful life of the assets. Alberta recognizes capital property as assets in the ministerial financial statements (prepared in accordance with generally accepted accounting principles) but not in the consolidated financial statements (prepared on an "as disclosed" basis).

The proposed model also incorporates all non-financial assets of a government, including tangible capital assets, inventory of supplies and prepayments, and recognizes the consumption of these assets as cost of the period.

The proposed model makes sense to the Commission. Therefore, the Commission recommends that:

22 ***The government should continue working with PSAB in the development of the standard regarding the capitalization and amortization of assets and it should adopt the standard when it is developed.***

We suggest that the Audit Committee of the Province should closely monitor this matter. We also suggest that the government should further review the Auditor General's comments regarding the reasonable threshold levels for capitalization of assets.

In terms of potential changes both in entities to be included in government's consolidated accounts and accounting treatment of capital assets, the Commission recommends that:

23 ***The government should work closely with the Office of the Auditor General with the objective of having an audit opinion without reservations based on generally accepted accounting principles (GAAP) and not on a "disclosed basis" of accounting.***

In relation to this recommendation, the Commission suggests that the Audit Committee should place greater emphasis on the resolution of all matters that would affect an audit opinion using generally accepted accounting principles.

# Implementing a New Fiscal Framework

The Commission encourages government to consider our recommendations as a package that, taken together, provides a new fiscal framework for the province.

## Transition to a new fiscal framework

The Commission recommends that:

**24** ***Government should signal its intent to move forward with a new fiscal framework and use the balance of the current fiscal year to prepare for the transition.***

The Commission understands that it will take time to analyze the impact, work out the details and implement a new fiscal framework. In the next few months, government has an opportunity to signal its intent to move ahead and describe the new approach and its implications to Albertans through its spending decisions surrounding surplus revenues that may be available this year. While detailed information will be available after the first quarter of this fiscal year, the Commission encourages the government not to spend anticipated surpluses on initiatives that will add to ongoing operating costs. If decisions are made to spend a portion of anticipated surpluses throughout the year, the Commission suggests that the focus should be on addressing the backlog of deferred capital projects. This would reduce the need to call on funds in the Heritage Fund for this purpose.

## Legislative changes

The Commission also understands that certain legislative changes will be required to implement a new fiscal framework. Based on our review, the following changes will be needed to current legislation.

**Fiscal Responsibility Act**

- The current requirements for budgets to be balanced every year should be maintained; however, the government definition of "deficits" for fiscal policy purposes needs to be updated to be consistent with the Commission's recommendations. The concept of a balanced budget should be retained for fiscal policy purposes but not necessarily for financial reporting purposes. A reconciliation would be provided in the province's financial reports.
- Legislative rules need to be added to allow for all resource revenues to go into the Alberta Heritage Fund and a fixed amount to be transferred to the provincial budget each year.
- The section requiring a 3.5% economic cushion will need to be revised, consistent with the Commission's recommendations.

- Sections allowing for in-year changes in the budget should be deleted. Any in-year changes would be taken from the allowance for contingencies.
- The section dealing with the debt elimination schedule should be deleted, consistent with the Commission's recommendation that debt be repaid as it comes due.
- Other changes in specific sections will be required, consistent with the Commission's recommendations.

**Financial Administration Act**

- There should be a general review of this Act to ensure that the framework we are proposing can be implemented.
- Specific changes should be made to:
  - Include a new definition of capital
  - Review the definition of deficits and ensure it is consistent with the Commission's recommendations
  - Ensure that appropriations for capital do not lapse at the end of the fiscal year.

**Alberta Heritage Savings Trust Fund Act**

Changes to this Act will be needed to change the name of the Fund and implement the Commission's recommendations on a new mandate for the Fund.

In terms of other related legislation, the Commission supports the Government Accountability Act and does not recommend any significant changes; however, the Act should be reviewed to ensure it is consistent with the Commission's recommended framework. The Auditor General Act, the Alberta Municipal Financing Corporation Act, and the Natural Gas Price Protection Act should also be reviewed in light of the Commission's recommendations.

## Ensuring regular reviews

The new fiscal framework is intended to meet today's challenges and to put in place a solid framework to guide the province for years to come. At the same time, we recognize that circumstances and priorities change and decisions that are sound today may not continue to be the best options in the future. Just as it was timely for government to establish the Financial Management Commission to review and make recommendations about the current fiscal framework, the Commission recommends that:

**25** ***In five years or less, the government should establish a new Commission to provide an external review of government's fiscal situation and its fiscal framework.***

# Concluding Comments

The Alberta government is to be commended for the strong leadership it has shown in managing the province's finances. The results have been outstanding. But circumstances have changed since the province's current fiscal framework was introduced. As noted by the Minister of Finance, Alberta is prepared to "... push the boundaries of excellence in the areas of fiscal planning for the benefit of future generations."

We hope we have done just that ... pushed the boundaries of excellence. We believe the new fiscal framework we propose will achieve the following objectives:

- It will remove the impact of Alberta's volatile resource revenues and allow the province to provide stable, long term budgets and plans.
- It will ensure that debt is paid down and eliminated in an orderly way.
- It will revitalize the Alberta Heritage Fund and put it to work to help Albertans today and for generations to come.
- It will introduce a new and more stable way of paying for capital projects.
- And it will build a transition to the future when oil and gas revenues decline.

In short, we believe this new fiscal framework will move Alberta from good to great.

# Appendices

# Appendix 1

## List of submissions, presentations and technical advisors

(those who made presentations in addition to written submissions marked with an asterisk "*")

Aileen Tayler *

Alberta Association of Municipal Districts and Counties *

Alberta Capital Region Alliance *

Alberta Chambers of Commerce

Alberta Construction Association *

Alberta Economic Development Authority

Alberta Federation of Labour

Alberta Infrastructure Minister's Symposium on Schools

Alberta Long Term Care Association *

Alberta Motor Association

Alberta Research Council

Alberta Roadbuilders & Heavy Construction Association *

Alberta School Boards Association

Alberta Science and Research Authority

Alberta Urban Municipalities Association *

Albert Opstad

Auditor General of Alberta

Brian Mason, MLA, New Democrat Party of Alberta *

Brian MacNeil, Chair, Board of Governors, University of Calgary

Brian E. Sullivan

Calgary Chamber of Commerce *

Canadian Federation of Independent Business *

Canadian Taxpayers Federation *

Capital Health Authority *

Carmacks Enterprises Ltd.

Carolyn Shaw

Certified General Accountants Association

City of Edmonton Transit System Advisory Board

City of Fort Saskatchewan

Clarence J. Roth *

Consulting Engineers of Alberta *

CSC Project Management Services *

Custom Design Interior Furnishings

Debby Gregorash

Denis W. Scott

Deputy Minister, Aboriginal Affairs and Northern Development

Edmonton Chamber of Commerce *

Elder Advocates of Alberta *

Eugene Kush, Q.C.

Frank Wright

Fred J. Mellen

Gordon Banco

Hans Maciej

Hans Weissenborn

Harvey Weingarten, President, University of Calgary

Honourable Clint Dunford, Minister of Human Resources and Employment *

Honourable Ed Stelmach, Minister of Transportation *
Honourable Greg Melchin, Minister of Revenue *
Honourable Guy Boutilier, Minister of Municipal Affairs
Honourable Ty Lund, Minister of Infrastructure *
Honourable Victor Doerksen, Minister of Innovation and Science *
Institute of Chartered Accountants of Alberta *
James R. Unterschultz
Jules Leboeuf *
Ken Allred *
Ken Boessenkool, Sidicus Consulting Ltd. *
Ken Nicol, MLA, Liberal Party of Alberta *
Ken Smith, Deputy Minister of Energy *
Local Authorities Pension Plan Board of Trustees
Lorraine Bevans
Martin Hattersley
Mayor Bill Smith, City of Edmonton *
Mayor David Bronconnier, City of Calgary *
Melville L. McMillan
Merit Contractors Association
Mountain View County
Municipal District of Taber
Norbert Van Wyk, City Manager, City of Red Deer
Northern Alberta Development Council
Northern Lights Regional Health Authority
Paul C. Breeze, Earth Tech (Canada) Inc. *
Paul Fisher
Persons with Developmental Disabilities Provincial Board
Ralph Michelson
Red Deer Chamber of Commerce
R. Greer Black, Bethany Care Society
Richard Clark
Robert A. Splane, Chair, Agriculture Financial Services Corporation
Rod Fraser, President, University of Alberta *
Roger Brundrit *
Russell Carr
Strathcona County
Tony Friedt
Top Notch Construction Ltd. Calgary
Urban Development Institute of Alberta *
West Edmonton Transportation Coalition

## Technical advisory group

Al O' Brien
Dr. Kenneth J. McKenzie
Dr. Ron D. Kneebone
Dr. Paul M. Boothe

## Advisors and support

Al Craig, Executive Director, Financial Management Commission
Peggy Garritty, Writer and communications advisor
Officials from Alberta Finance

# Appendix 2

## Studies, reports and articles reviewed by the Commission[1]


"Alaskans' tax-free life on slippery slope: New jobs mean more costs, not revenue for treasury," Calgary Herald, April 21, 2002.

Alberta Transportation, "Future Highway Needs - A 10 Year View of Alberta's Transportation Needs,"November 2001.

Boessenkool, Kenneth J., "Keeping Alberta on the Path of Fiscal Happiness," C.D. Howe Institute, October 23, 2001.

Boothe, Paul, "Making Choices," Institute for Public Economics, University of Alberta, February 8, 1999 (Updated April 8, 2002).

Bruce, Doug, "Wage Watch: A Comparison of Public-Sector and Private-Sector Wages," Canadian Federation of Independent Business, August 1999.

City of Edmonton, "Capital Priorities Planning Process, 2002-2006."

City of Edmonton, "Long Range Financial Plan," August 1998.

City of Edmonton, "Long Range Financial Plan Update," May 2002.

Collins, Honourable Gary, Minister of Finance, "Introduction of New Capital Asset Management Framework and Partnerships British Columbia," Speech to the Conference on Public-Private Partnerships, May 30, 2002.

Derkson, Wade W. and Shurvell, Scott J., "Fuel Taxes and Road Expenditures: Making the Link," Transport Institute, University of Manitoba, November 1999.

Dinning, Jim, "Managing oil and gas wealth: Lessons from the Alberta Trenches," Speech to the Atlantic Institute for Market Studies, Halifax, March 7, 2002.

"Enron on Thames," The Economist, March 30, 2002.

Gibbons, Roger, "Public debt is a necessary evil," Canada West Foundation, Calgary Herald, February 10, 2002.

Goldsmith, Scott, "The Alaska Permanent Fund Dividend Program," University of Alaska Anchorage, September 2001.

Government of Alberta, *Alberta Heritage Savings Trust Fund, Third Quarter Update*, 2001-02 Quarterly Report, February 2002.

Government of Alberta, *A Plan for a Debt-Free Alberta, Budget 99: The Right Balance*, March 1999.

Government of Alberta, *Appendix: Consolidated Budgeting, Agenda 96: Balance Responsibility Opportunity*, February 1996.

Government of Alberta, *Budget 2002: The Right Decisions for Challenging Times*, March 2002.

Government of Alberta, *Get Ready Alberta: Strengthening the Alberta Advantage*, February 2000.

Government of Alberta, *Get Ready Alberta, Year One Report To Albertans*, February 2001.

Government of Alberta, *Third Quarter Fiscal Update*, 2001-02 Quarterly Budget Report, February 2002.

Government of Alberta, *2001-02 Annual Report*, June 2002.

Government of British Columbia, "Capital Asset Management Framework: Overview," May 2002.

Kneebone, Ron, "Recent and Not So Recent Trends in Provincial Government Spending in Alberta," Department of Economics, University of Calgary, September 2001.

Lougheed, Peter, "Albertans Still Need a Healthy Heritage Fund," Calgary Herald, April 19, 2002.

Mansell, Robert, "Alberta's Key Economic Challenges," Department of Economics, University of Calgary, June 2002.

McMillan, Melville L., "Enhancing the Alberta Advantage: Achieving Fiscal Stability via a Funded Alberta Pension Plan," Department of Economics, University of Alberta, August 2001 (Revised January 2002).

Ministry of Finance, "An Introduction to Public-Private Partnerships," Government of British Columbia, March 2002.

Office of the Auditor General, "Financing Infrastructure Projects, a Paper by the Auditor General of Alberta," March 2002.

Office of the Auditor General, "Report to Alberta's Financial Management Commission on Performance Reporting Issues," April 2002.

Ossowski, Rolando, "Oil Funds: Conceptual Framework and Selected International Experience," Fiscal Affairs Department, International Monetary Fund, August 2001.

Plourde, André and Reid, Bradford, "Natural Resource Revenues and the Alberta Budget," University of Alberta, September 2001.

Premier's Advisory Council on Health, *A Framework for Reform*, December 2001.

"Rainy days flowing again," Winnipeg Free Press, April 21, 2002.

"Revenue Forecasting Review - A Report to Provincial Treasurer Jim Dinning," July 25, 1996.

"The Alberta Financial Review Commission - Report to Albertans," March 31, 1993.

"The Savings Question: A Discussion Paper," prepared with input from the Financial Management and Planning Sector for the Alberta Future Summit, April 2002.

Wen, Dr. Jean-François, "Eliminating Alberta's Personal Income Tax: (When) can Heritage Fund Income Replace Tax Revenues?," Department of Economics, University of Calgary, February 2001.

[1] The list includes only major articles and studies referred to the Commission and may not include all information reviewed by in[illegible]

# Appendix 3

## List of deferred capital projects

| Deferred Projects | Estimated Cost to Government ($millions) |
|---|---|
| **Health Care Facilities** | |
| Cardiac Centre of Excellence - Edmonton | 116.2 |
| Bone and Joint Centre of Excellence - Calgary | 124.8 |
| Alberta Children's Hospital - Calgary | 161.8 |
| Royal Alexandra Hospital Redevelopment Phase 2 - Edmonton | 156 |
| Long Term Care Facility - Vegreville | 16.8 |
| Alberta Mental Health Board - Bow River Correctional Centre | 4.9 |
| Long Term Care Facility - Westlock | 18.8 |
| Calgary Diagnostic and Treatment Centre | 7 |
| **Sub-Total** | **606.3** |
| **School Facilities** | |
| Victoria Composite High School | **62** |
| **Post-Secondary Facilities** | |
| Health Research Innovation Centres[1] | **90** |
| **Major Highway Projects** | |
| Interchanges on Deerfoot Trail | |
| Completion of Anthony Henday Drive | |
| Completion of Twinning of North-South Trade Corridor by 2007 | |
| | **54** |
| **Total** | **812.3** |

[1] Estimated additional cost to provincial government, which has already provided $10 million. Additional funding is from: Alberta Heritage Foundation for Medical Research ($40 million); Canadian Foundation for Innovation ($30 million); universities/industry/community ($50 million).